AMOREPACIFIC Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
AMOREPACIFIC Corporation

Opinion

We have audited the accompanying consolidated financial statements of AMOREPACIFIC Corporation and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters.

(1) Initial application of Korean IFRS 1115 *Revenue from Contracts with Customers*

Key Audit Matter

As the Group applied Korean IFRS 1115 *Revenue from Contracts with Customers* from January 1, 2018, we focused on the impacts of the application on the financial statements. The managements of the Group assessed each type of sales contracts, identified impacts of the application and established the accounting policies. In accordance with the transitional provisions in Korean IFRS 1115, the effect of retrospective application of the amendments are reflected in the beginning balance as at January 1, 2018. Refer to Note 36.2 for further details on the impact of the application of Korean IFRS 1115.

How our audit addressed the Key Audit Matter
We performed the following audit procedures for the application of Korean IFRS 1115.

- Review the impacts of the application of Korean IFRS 1115 and analysis provided by the managements
- Obtain and test the appropriateness of methodology that the management chose to reflect the effect of initial adoption which would be reflected in the beginning balance.
- Confirm that the financial statements include footnote disclosure regarding the initial application.
- Obtain and understand the accounting policy regarding the amended revenue recognition and test the design and operating effectiveness of control and procedures.
- Select samples from the sales contracts from each channel and confirm whether the accounting policy is adequately adopted and applied in accordance with the Korean IFRS 1115.
- Obtain transaction details of revenue and test whether the revenue transactions of the Group is recognized and recorded in accordance with the revenue recognition standard.

(2) Valuation of retirement benefit obligation

Key Audit Matter
We performed the following audit procedures for the application of Korean IFRS 1115.
The Group operates both defined benefit and defined contribution retirement plans. We focused that the measurement of defined benefit obligation involves the management's judgement on assumptions and estimation. Present value of net defined benefit obligation is measured depending on various factors that are determined on an actuarial basis and assumptions, and it is highly sensitive to determine in the assumptions; therefore, the impact of the management's estimation would be significant. Especially, for the year ended December 31, 2018, along with the change in the wage structure of the Group, the assumptions including growth rate of wage, discount rate and others have been changed. The present value of defined benefit obligation is ₩ 297,376 million as at December 31, 2018.

We determined valuation of retirement benefit obligation as key audit matter, considering the complexity of valuation, amount of the retirement benefit obligation, and change in assumptions by the management.

How our audit addressed the Key Audit Matter
We performed the following audit procedures for valuation of retirement benefit obligation.

- Understand and assess the management's process and controls on estimation of defined benefit obligation and analyse major assumptions and estimation
- Confirm that the management's assumptions and data are agreed with the empirical statistics, management plan and underlying data, and confirm that the management complies with documented procedures such as review being made in timely basis by person in charge.
- Review capability and related experience (independence and competency) of the expert that the management uses to estimate present value of defined benefit obligation uses our expert for reviewing the approach of the management's valuation and assumptions.

Other Matters
Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial

statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Keun-Young Chung, Certified Public Accountant.

Samil PricewaterhouseCoopers

Seoul, Korea
March 7, 2019

This report is effective as at March 7, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2018 and 2017

(in thousands of Korean won)	Notes		2018		2017
Assets					
Current assets					
Cash and cash equivalents	5,6	₩	735,510,638	₩	604,187,523
Financial deposits	5,32		15,100,000		32,000,000
Available-for-sale financial assets	5,9,32,36		-		30,000,000
Financial assets at amortized costs			30,000,000		-
Trade receivables	5,7,33		286,688,932		324,664,570
Other receivables	5,7,33		31,274,766		55,312,174
Current tax assets	24		4,286,808		3,147,245
Other current assets	5,15		61,069,999		52,253,580
Inventories	8		403,304,777		374,759,015
Non-current assets held-for-sale	4,14		-		201,155,041
			1,567,235,920		1,677,479,148
Non-current assets					
Financial deposits	5,32		14,828,005		13,871,642
Other receivables	5,7,33		168,382,200		170,367,321
Financial assets at fair value through profit or loss			3,955,641		-
Available-for-sale financial assets	5,9,36		-		13,280,516
Financial assets at amortized costs			3,092,380		-
Proceeds from disposal of non-current assets held-for-sale			2,689,834		-
Property, plant and equipment	4,11,33		2,713,128,203		2,613,171,909
Investment properties	13,36		501,437,479		560,045,220
Intangible assets	4,12		254,114,866		239,734,765
Investments in associates	4,10		2,345,922		2,381,036
Net defined benefit assets	19		58,528,790		25,379,868
Deferred tax assets	24		57,526,496		42,711,849
Other non-current assets	15		23,871,481		17,260,965
			3,803,901,297		3,698,205,091
Total assets		₩	5,371,137,217	₩	5,375,684,239
Liabilities					
Current liabilities					
Trade payables	5,33,35	₩	111,832,730	₩	132,083,969
Borrowings	5,16,35		71,453,273		85,051,737
Other payables	5,33,35		249,628,796		212,057,325
Current tax liabilities	24		62,967,164		71,222,191
Deferred revenue			-		52,823,430
Contract liabilities			56,177,685		-
Provisions	17		11,085,175		15,330,725
Other current liabilities	5,11,18,35		200,067,107		477,878,691
			763,211,930		1,046,448,068
Non-current liabilities					
Borrowings	5,16,35		44,687,010		42,902,910
Net defined benefit liabilities	19		3,210,941		3,116,112
Deferred tax liabilities	24		78,768,880		83,741,790
Provisions	17		13,781,214		5,005,977
Other non-current liabilities	5,11,18,35		21,060,160		19,095,227
			161,508,205		153,862,016
Total liabilities			924,720,135		1,200,310,084
Equity					
Share capital	1		34,508,160		34,508,160
Share premium			712,701,764		712,701,764
Capital surplus			7,770,057		7,770,057
Other components of equity	20		(17,624,266)		(17,624,267)
Accumulated other comprehensive income	21		(41,311,913)		(40,076,475)
Retained earnings	22		3,726,002,772		3,456,502,862
Equity attributable to owners of the Parent Company			4,422,046,574		4,153,782,101
Non-controlling interest	34		24,370,508		21,592,054
Total equity			4,446,417,082		4,175,374,155
Total liabilities and equity		₩	5,371,137,217	₩	5,375,684,239

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017

(in thousands of Korean won, except per share amounts)	**Notes**		**2018**		**2017**
Revenue	4,25,33,36	₩	5,277,844,562	₩	5,123,825,882
Cost of sales	8,26,33		1,434,875,631		1,379,726,028
Gross profit			3,842,968,931		3,744,099,854
Selling and administrative expenses	26,27		3,360,988,103		3,147,700,717
Operating profit	4		481,980,828		596,399,137
Finance income	5,28		12,690,124		13,817,295
Finance costs	5,28		2,686,932		3,080,149
Other non-operating losses, net	5,29		(39,028,127)		(39,871,873)
Share of net profit of associates	19		30,814		79,454
			(28,994,121)		(29,055,273)
Profit before income tax			452,986,707		567,343,864
Inc Proceeds from disposal of non-current assets held-for-sale	24		118,142,143		169,340,852
Profit for the period		₩	334,844,564	₩	398,003,012
Profit is attributable to:					
Owners of the Parent Company		₩	332,195,459	₩	394,010,904
Non-controlling interests		₩	2,649,105	₩	3,992,108
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurements of net defined benefit liabilities	19,24		21,500,150		12,861,616
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	21,24		1,646,094		-
Items that may be subsequently reclassified to profit or loss:					
Changes in the fair value of available-for-sale financial assets	5,9,21,24		-		(204,595)
Share of other comprehensive income of associates	10,21,24		(55,193)		82,265
Exchange differences on transaction of foreign operations	21,24		466,655		(24,262,397)
Other comprehensive income for the period, net of tax			23,557,706		(11,523,111)
Total comprehensive income for the period		₩	358,402,270	₩	386,479,901
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company			355,628,394		383,991,144
Non-controlling interests			2,773,876		2,488,757
		₩	358,402,270	₩	386,479,901
Earnings per share attributable to owners of the Parent Company	30				
Basic earnings per ordinary share		₩	4	₩	5
Basic earnings per preferred share		₩	4	₩	5

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2018 and 2017

(in thousands of Korean won)

	Attributable to owners of the Parent Company								
	Share capital	Share premium	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2017	₩ 34,508,160	₩ 712,701,764	₩ 7,770,057	₩ (17,624,266)	₩ (17,195,100)	₩ 3,158,666,867	₩ 3,878,827,482	₩ 17,804,588	₩ 3,896,632,070
Comprehensive income									
Profit for the period	-	-	-	-	-	394,010,904	394,010,904	3,992,108	398,003,012
Remeasurements of net defined benefit liabilities	-	-	-	-	-	12,861,616	12,861,616	-	12,861,616
Changes in the value of available-for-sale financial assets	-	-	-	-	(204,595)	-	(204,595)	-	(204,595)
Share of other comprehensive income of associates	-	-	-	-	74,038	-	74,038	8,227	82,265
Exchange differences on transaction of foreign operations	-	-	-	-	(22,750,819)	-	(22,750,819)	(1,511,577)	(24,262,396)
Total comprehensive income for the period	-	-	-	-	(22,881,376)	406,872,520	383,991,144	2,488,758	386,479,902
Transactions with owners									
Dividends paid	-	-	-	-	-	(109,036,526)	(109,036,526)	-	(109,036,526)
Changes in non-controlling interest due to capital increase	-	-	-	-	-	-	-	1,298,709	1,298,709
Total transactions with owners	-	-	-	-	-	(109,036,526)	(109,036,526)	1,298,709	(107,737,817)
Bala Proceeds from disposal of non-current assets held-for-sale	₩ 34,508,160	₩ 712,701,764	₩ 7,770,057	₩ (17,624,266)	₩ (40,076,476)	₩ 3,456,502,861	₩ 4,153,782,100	₩ 21,592,055	₩ 4,175,374,155
(in thousands of U.S. dollars (Note 4))	US$ 30,862	US$ 637,422	US$ 6,949	US$ (15,763)	US$ (35,843)	US$ 3,091,408	US$ 3,715,035	US$ 19,311	US$ 3,734,346
Balance at January 1, 2018	₩ 34,508,160	₩ 712,701,764	₩ 7,770,057	₩ (17,624,266)	₩ (40,076,476)	₩ 3,456,502,861	₩ 4,153,782,100	₩ 21,592,055	₩ 4,175,374,155
Changes in accounting policy	-	-	-	-	-	979,482	979,482	4,578	984,060
Balance at January 1, 2018 (Adjusted)	34,508,160	712,701,764	7,770,057	(17,624,266)	(40,076,476)	3,457,482,344	4,154,761,583	21,596,632	4,176,358,215
Comprehensive income									
Profit for the period	-	-	-	-	-	332,195,459	332,195,459	2,649,105	334,844,564
Remeasurements of net defined benefit liabilities	-	-	-	-	-	21,500,150	21,500,150	-	21,500,150
Gainon valuation of financial assets at fair value through other comprehensive income	-	-	-	-	1,633,445	-	1,633,445	12,649	1,646,094
Gain (loss) on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	(3,168,222)	3,168,222	-	-	-
Share of other comprehensive income of associates	-	-	-	-	(49,674)	-	(49,674)	(5,520)	(55,194)
Exchange differences on transaction of foreign operations	-	-	-	-	349,014	-	349,014	117,641	466,655
Total comprehensive income for the period	-	-	-	-	(1,235,437)	356,863,831	355,628,394	2,773,875	358,402,269
Transactions with owners									
Dividends paid	-	-	-	-	-	(88,343,402)	(88,343,402)	-	(88,343,402)
Total transactions with owners	-	-	-	-	-	(88,343,402)	(88,343,402)	-	(88,343,402)
Balance at December 31, 2018	₩ 34,508,160	₩ 712,701,764	₩ 7,770,057	₩ (17,624,266)	₩ (41,311,913)	₩ 3,726,002,773	₩ 4,422,046,575	₩ 24,370,507	₩ 4,446,417,082
(in thousands of U.S. dollars (Note 4))	US$ 30,863	US$ 637,422	US$ 6,949	US$ (15,763)	US$ (36,948)	US$ 3,332,441	US$ 3,954,965	US$ 21,796	US$ 3,976,762

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

AMOREPACIFIC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in thousands of Korean won)	Notes	2018	2017
Cash flows from operating activities			
Cash generated from operations	31	₩ 791,112,221	₩ 755,689,579
Interest received		11,766,290	13,881,601
Interest paid		(1,903,403)	(4,209,690)
Income tax paid		(154,297,801)	(252,798,021)
Net cash inflow from operating activities		646,677,307	512,563,469
Cash flows from investing activities			
Net decrease in current financial deposits		17,569,000	264,966,000
Net decrease in current available-for-sale financial assets		-	130,717,835
Proceeds from disposal of financial assets at fair value through profit or loss		20,101,370	-
Decrease in other receivables		5,977,551	19,517,222
Decrease in non-current financial deposits		579,033	1,422,570
Proceeds from disposal of non-current available-for-sale financial assets		-	454,905
Proceeds from disposal of financial assets at amortized costs		1,435,365	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		3,198,768	-
Proceeds from disposal of property, plant and equipment		1,698,472	1,269,254
Proceeds from disposal of intangible assets		1,056,370	578,443
Proceeds from disposal of investment properties		2,016,000	3,400,000
Proceeds from disposal of non-current assets held-for-sale	13	504,000	21,000,000
Dividens income from associates		107,494	107,760
Other cash inflow		15,256,414	-
Increase in financial assets at fair value through profit or loss		(20,000,000)	-
Increase in other receivables		(4,877,583)	(31,015,229)
Increase in non-current financial deposits		(1,500,003)	(1,500,003)
Payments for non-current available-for-sale financial assets		-	(411,645)
Payments in financial assets at amortized costs		(337,180)	-
Payments for property, plant and equipment	10	(405,477,300)	(768,565,387)
Payments for intangible assets	11	(51,225,490)	(42,782,587)
Net cash outflow from investing activities		(413,917,719)	(400,840,862)
Cash flows from financing activities			
Proceeds from short-term borrowings		24,495,222	50,388,102
Proceeds from long-term borrowings		-	45,425,690
Capital increase by non-controlling shareholders		-	1,298,709
Repayments of short-term borrowings		(39,628,289)	(53,982,800)
Repayments of long-term borrowings		-	(44,992,042)
Dividends paid	23	(88,311,921)	(108,997,693)
Net cash outflow from financing activities		(103,444,988)	(110,860,034)
Effects of exchange rate changes on cash and cash equivalents		2,008,515	(20,378,635)
Net decrease in cash and cash equivalents		131,323,115	(19,516,062)
Cash and cash equivalents at the beginning of the year		604,187,523	623,703,584
Cash and cash equivalents at the end of the year		₩ 735,510,638	₩ 604,187,523

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

1. General Information

General information of AMOREPACIFIC Corporation (referred to as "the Company"), which is the Parent Company in accordance with Korean IFRS 1110 Consolidated Financial Statements and its 24 subsidiaries (collectively referred to as "the Group"), is as follows.

The Company was split-off from AMOREPACIFIC Group, Inc. on June 1, 2006, to engage in manufacturing, marketing and trading of cosmetics, personal care goods, food and other related products.

As at December 31, 2018, the Company has its plants in Osan, Daejeon and Jincheon and has five local operation divisions, excluding the head office, twenty-two overseas local subsidiaries including AMOREPACIFIC Global Operations Limited., located in Hong Kong, and two domestic subsidiaries.

As at December 31, 2018, the Company's share capital is ₩ 34,508 million, including ₩ 5,279 million of capital from preferred share. The Company is authorized to issue 275,000,000 shares of stock.

Preferred shareholders have no voting rights and are entitled to non-cumulative and non-participating preferred dividend at a rate of 1% over those provided to ordinary shareholders. This preferred dividend rate is not applicable to share dividend; accordingly, in calculating earnings per share for preferred shares, a different dividend rate is used.

The Parent Company's ordinary shareholders as at December 31, 2018, are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
AMOREPACIFIC Group, Inc.	20,695,860	35
Kyung-Bae Suh	6,264,450	11
Others[1]	31,498,180	54
	58,458,490	100

[1] Including 33,041 treasury shares

The Company's consolidated subsidiaries as at December 31, 2018, are as follows:

Shareholder	Subsidiaries	Primary business	Share capital (in millions of Korean won)	Percentage of ownership(%)	Year end	Location
AMOREPACIFIC Corporation	AMOREPACIFIC Global Operations Limited.	Holding company and marketing of cosmetics	₩ 201,910.00	90.00	Dec.31	Hong Kong
AMOREPACIFIC Corporation	AMORE Cosmetics (Shanghai) Co.,Ltd.	Manufacturing and marketing of cosmetics	64,299.00	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.	Research and development	2,195.00	100.00	Dec.31	China
AMOREPACIFIC Corporation	AMOREPACIFIC MANUFACTURING MALAYSIA	Manufacturing and R&D of cosmetics	41,690.00	100.00	Dec.31	Malaysia
AMOREPACIFIC Corporation	We-Dream Co., Ltd.	Packaging of products and managing of facilities	406.00	100.00	Dec.31	Korea
AMOREPACIFIC Corporation	Green Partners Corporation	Sales of products and managing of human resources	800.00	100.00	Dec.31	Korea
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Trading Co.,Ltd.	Sales of cosmetics	9,456.00	100.00	Dec.31	China
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Hong Kong Co.,Limited	Sales of cosmetics	12.00	100.00	Dec.31	Hong Kong
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Taiwan Co.,Ltd.	Sales of cosmetics	13,414.00	100.00	Dec.31	Taiwan
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC SINGAPORE PTE Co Ltd.	Sales of cosmetics	25,861.00	100.00	Dec.31	Singapore
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC MALAYSIA SDN. BHD.	Sales of cosmetics	9,415.00	100.00	Dec.31	Malaysia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC (Thailand) LIMITED	Sales of cosmetics	19,383.00	100.00	Dec.31	Thailand
AMOREPACIFIC Corporation AMOREPACIFIC Global Operations Limited.	PT. LANEIGE INDONESIA PACIFIC	Sales of cosmetics	8,584.00	2.29 97.71	Dec.31	Indonesia
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Vietnam LTD.	Sales of cosmetics	10,367.00	100.00	Dec.31	Vietnam
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC PHILIPPINES, INC.	Sales of cosmetics	1,098.00	100.00	Dec.31	Philippines
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC US, INC.	Sales of cosmetics	61,262.00	100.00	Dec.31	United States
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC CANADA INC.	Sales of cosmetics	2,497.00	100.00	Dec.31	Canada
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC EUROPE S.A.S	Manufacturing and sales of cosmetics	98,933.00	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	Annick Goutal S.A.S	Sales of cosmetics	20,673.00	100.00	Dec.31	France
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC Japan Co.,Ltd.	Sales of cosmetics	33,105.00	100.00	Dec.31	Japan
AMOREPACIFIC Global Operations Limited.	Innisfree Cosmetics India Private Limited	Sales of cosmetics	4,807.00	100.00	Mar.31	India
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC ME FZ-LLC	Sales of cosmetics	1,953.00	100.00	Dec.31	United Arab Emirates
AMOREPACIFIC Global Operations Limited.	AMOREPACIFIC AUSTRALIA PTY LTD	Sales of cosmetics	2,997.00	100.00	Dec.31	Australia
AMOREPACIFIC Trading Co.,Ltd.	AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Sales of cosmetics	170.00	100.00	Dec.31	China

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2018 and 2017 is as follows:

2018 *(in millions of Korean won)*		Total assets		Total liabilities		Revenue		Profit (loss) for the period		Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.[1]	₩	229,024	₩	69,132	₩	65,744	₩	(1,926)	₩	4,848
AMORE Cosmetics (Shanghai) Co.,Ltd.		288,379		74,076		182,452		38,442		36,617
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.		40,630		76		-		121		989
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.		4,003		179		5,131		392		364
We-Dream Co., Ltd.		853		168		1,560		118		137
Green Partners Corporation		785		5		-		(20)		(20)
AMOREPACIFIC Trading Co. Ltd		529,399		355,155		1,280,564		34,274		32,555
AMOREPACIFIC Hong Kong Co.,Limited		81,702		44,987		163,602		9,028		11,043
AMOREPACIFIC Taiwan Co.,Ltd.		32,570		18,368		57,454		992		1,232
AMOREPACIFIC SINGAPORE PTE Co. Ltd.		45,233		22,344		70,814		(279)		220
AMOREPACIFIC MALAYSIA SDN. BHD.		29,534		17,419		49,232		(52)		210
AMOREPACIFIC (Thailand) LIMITED		27,870		8,452		47,215		1,508		2,360
PT. LANEIGE INDONESIA PACIFIC		15,217		10,291		22,813		225		88
Innisfree Cosmetics India Private Limited		6,250		3,479		6,541		686		594
AMOREPACIFIC Japan Co.,Ltd.		34,050		25,447		79,245		4,428		4,689
AMOREPACIFIC US, INC.		45,486		32,923		58,582		(6,819)		(7,027)
AMOREPACIFIC CANADA INC.		5,238		2,755		8,951		(153)		(251)
AMOREPACIFIC EUROPE S.A.S		27,560		35,890		14,406		(6,744)		(6,984)
Annick Goutal S.A.S		19,371		23,979		14,559		(2,692)		(2,529)
AMOREPACIFIC ME FZ-LLC		1,146		827		4,457		(917)		(898)
AMOREPACIFIC Vietnam LTD.		10,207		5,079		17,075		1,534		1,620
AMOREPACIFIC PHILIPPINES, INC.		2,285		961		750		211		226
AMOREPACIFIC AUSTRALIA PTY LTD		3,780		2,051		2,793		(1,103)		(1,268)
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD		277		127		145		(13)		(20)

2017 *(in millions of Korean won)*		Total assets		Total liabilities		Revenue		Profit (loss) for the period		Total comprehensive income(loss)
AMOREPACIFIC Global Operations Limited.[1]	₩	224,059	₩	68,669	₩	72,906	₩	15,351	₩	(2,479)
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.[1]		3,605		3		-		(1,208)		(1,384)
AMORE Cosmetics (Shanghai) Co.,Ltd.		250,957		88,474		151,882		35,066		26,761
AMOREPACIFIC MANUFACTURING MALAYSIA SDN. BHD.		39,564		-		-		44		(858)
AMOREPACIFIC (Shanghai) R&I Center Co.,Ltd.		3,648		188		5,168		515		330
We-Dream Co., Ltd.		583		36		1,121		38		38
AMOREPACIFIC Trading Co., Ltd.		497,600		334,885		1,211,902		41,390		33,246
AMOREPACIFIC Hong Kong Co.,Limited		89,463		45,211		161,029		7,949		1,297
AMOREPACIFIC Taiwan Co.,Ltd.		25,978		13,008		47,159		3,751		3,239
AMOREPACIFIC SINGAPORE PTE Co Ltd.		55,829		33,161		66,916		3,048		2,143
AMOREPACIFIC MALAYSIA SDN. BHD.		23,060		11,155		38,483		923		691
AMOREPACIFIC (Thailand) LIMITED		27,055		9,911		36,732		1,903		1,390
PT. LANEIGE INDONESIA PACIFIC		9,416		4,578		14,893		289		(322)
Innisfree Cosmetics India Private Limited		3,660		1,849		3,247		(561)		(697)
AMOREPACIFIC Japan Co.,Ltd.		19,212		15,373		61,701		2,306		2,024
AMOREPACIFIC US, INC.		33,209		28,993		45,614		(2,616)		(3,341)
AMOREPACIFIC CANADA INC.		5,762		3,028		7,244		259		124
AMOREPACIFIC EUROPE S.A.S		32,930		34,616		21,895		(13,164)		(13,033)
Annick Goutal S.A.S		13,422		15,378		13,849		(4,731)		(4,783)
AMOREPACIFIC ME FZ-LLC		1,128		345		60		(452)		(564)
AMOREPACIFIC Vietnam LTD.		6,935		8,337		10,140		(247)		(125)
AMOREPACIFIC AUSTRALIA PTY LTD		-		-		-		-		-

[1] Represents separate financial statements in which its investments in subsidiaries and associates are measured at cost.

The amounts presented above are before the elimination of intercompany transactions. In addition, the amounts presented above reflect accounting adjustments that were different from the Parent Company.

Changes in Scope for consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2018, are as follows:

Subsidiary	Reason
AMOREPACIFIC PHILIPPINES, INC.	Newly established by AMOREPACIFIC Global Operations Limited., a subsidiary, with the contribution of 100%.
AMOREPACIFIC (SHANGHAI) COSMETICS CO., LTD	Newly established by AMOREPACIFIC Trading Co., Ltd., a subsidiary, with the contribution of 100%.
Green Partners Corporation	Newly established by the Company with the contribution of 100%.

Subsidiary excluded from the consolidation for the year ended December 31, 2018, is as follows:

Subsidiary	Reason
AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD.	Excluded from the consolidation due to liquidation of AMOREPACIFIC GLOBAL OPERATIONS PTE. LTD., a former subsidiary.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- Amendment to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure each investment separately at fair value through profit or loss in accordance with Korean IFRS 1109. As the Group is not a venture capital organization, the amendment does not have a significant impact on the financial statements.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

The amendment to Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

- Amendment to Korean IFRS 1102 *Share-based Payment*

The amendment to Korean IFRS 1102 clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 Financial Instruments on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous carrying amounts and carrying amounts at the date of initial application are recognized to retained earnings as at January 1, 2018. Refer to note 36 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has applied Korean IFRS 1115 Revenue from Contracts with Customers. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated, and the Group retrospectively recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1, 2018. Refer to note 36 for further details on the impact of the application of the standard

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

- Korean IFRS 1116 *Leases*

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 Leases. The Group will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Group is analyzing the effects on the financial statements based on available information as at December 31, 2018 to identify effects on 2019 financial statements; however, it is difficult to provide reasonable estimates of financial effects until the Group finalizes the analysis.

- Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 Financial Instruments enable entities to measure certain prepayable financial assets with negative compensation at amortized cost, and if a financial liability measured at amortized cost is not derecognized despite its modification, a gain or loss from the modification shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized due to the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after January 1, 2019.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings at the date of initial application.

- Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

  · Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. These amendments will be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

  · Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. These amendments will be applied to transactions in which an entity obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

- Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. These amendments will be applied for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale) it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recoded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in a loss of control are treated as transactions with equity owners of the Group; thus difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the changed in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control, and the Group initially recognizes investments in associates at cost and then uses the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its carrying amount as impairment loss.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Translation differences on non-monetary assets and liabilities carried at fair value are reported as part of the fair value gain or loss; thus translation differences from financial instruments at fair value through profit and loss are recognized in profit or loss, while translation differences from financial instruments at fair value through other comprehensive income are recognized in other comprehensive income.

(c) Translation to presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

- income and expenses for each statement of profit or loss are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Financial Assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income or costs' in the year in which it arises.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

B. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'other income' when the right to receive dividend payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'finance income or costs' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach that recognizes expected lifetime credit losses from initial recognition of the receivables.

(d) Recognition and Derecognition

Regular purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as “borrowings” in the statement of financial position.

(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.6 Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance. Refer to note 7.3 for further information about the Group’s accounting for trade receivables.

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of merchandise, raw materials, subsidiary materials and supplies are determined using the moving-weighted average method, while the cost of finished goods, semi-finished goods and work-in-progress are determined using gross average method. The cost of materials in transit is determined using specific identification method.

2.8 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as held-for-sale when their carrying amount will be recovered principally through a sale transaction and the sale is considered highly probable. The assets are measured at the lower of the carrying amount and the fair value less costs to sell.

2.9 Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful life
Buildings	10 - 60 years
Structures	10 - 20 years
Machinery	5 - 20 years
Vehicles	6 years
Tools	3 years
Fixtures and furniture	2 - 5 years
Others	10 years

The assets' depreciation method, residual values and useful lives are reviewed at the end of each reporting period, and are adjusted if appropriate.

2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.12 Intangible Assets

Goodwill is measured as explained in Note 2.3.(a) and carried at its cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at cost less accumulated amortization and accumulated impairment losses.

Software development costs that are internally generated by the Group are sum of expenses that incurred once after the asset recognition are met. Such criteria includes technical feasibility, probable future economic benefits and other. Membership rights have an indefinite useful life, therefore are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life
Industrial property	5 - 20 years
Software	5 - 10 years
Others	2 - 45 years

2.13 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is initially measured at its cost, and after the initial measurement, it is measured at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment property, except for land, using the straight-line method over their estimated useful lives of 10-60 years.

2.14 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, and other assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.15 Trade and Other Payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of reporting period. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Financial Liabilities

(a) Classification and measurement

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the statement of profit or loss as 'finance costs', together with interest expenses recognized from other financial liabilities.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; when the obligation specified in the contract is discharged, cancelled or expired, or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.17 Provisions

Provisions for service warranties, make good obligation, and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.18 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.19 Employee Benefits

(a) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans. For defined contribution plans, the Group pays fixed amount of contribution to publicly or privately administered pension insurance plans, and the contribution is recognized employee benefit expense as employees provide services. A defined benefit plan is a pension plan that is not a defined contribution plan.

Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee’s age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

(b) Other long-term employee benefits

Certain entities with the Group provide long-term employee benefits. Right to this benefits are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by independent qualified actuaries.

2.20 Revenue Recognition

From January 1, 2018, the Group applied Korean IFRS 1115 *Revenue from Contracts with Customers.*

(a) Identifying performance obligations

The Group manufactures and sells cosmetics and personal care of goods. As the Group separates contracts to recognize revenue from service rendered, apart from sales of goods or products, identifying performance obligation does not have a material impact on the consolidated financial statements.

(b) Variable consideration

The Group provides promotional incentives to enhance customer's revenue and allows sales returns, which may cause variability in consideration received or receivable from the customers.

The Group estimates an amount of variable consideration by using the expected value that the Group expects to better predict the amount of consideration. The Group recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled.

(c) Allocating consideration received

The Group operates a customer loyalty program granting loyalty points and where members can redeem the points on future purchases. The customers' option is identified as a separate performance obligation.

The Group allocates the fair value of the consideration received or receivable in respect of revenues between the award credits and the sales of goods, based on the relative stand-alone selling prices of each distinct goods.

2.21 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. At the commencement of the lease term, finance leases are recognized as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

If the Group is a lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income

2.22 Segment Reporting

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the representative director that makes strategic decisions.

2.23 Approval of Issuance of the Financial Statements

The consolidated financial statements 2018 were approved for issue by the Board of Directors on January 31, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will be, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(a) Estimated goodwill impairment

The recoverable amount of a cash generating unit (CGU), which is used to test impairment of goodwill, is determined based on value-in-use calculations (Note 11).

(b) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions; hence, there is uncertainty in calculating the final tax effect (Note 24).

If certain portion of the taxable income is not used for investments or increase in wages or dividends, the Group is liable to pay additional income tax calculated based on the tax laws.

Accordingly, the measurement of current and deferred income tax is affected by these tax effects. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(c) Provisions

As described in Note 16, the Company recognizes provisions for estimated returns, profit-sharing and bonuses, estimated short-term payroll expenses related with accumulated paid leave and estimated other long-term payroll expenses as at the reporting date. The amounts are estimated based on past experience.

(d) Customer loyalty programs

Regarding the estimation of consideration receivable to allocate to award credits from customer loyalty programs, the Group uses fair value of goods to be provided, and takes account of rates and timing of redemption based on historical data.

(e) Fair value of financial instruments

The fair value of financial instruments that are not traded in active market is determined principally by using valuation techniques. The Group uses its judgment in selecting a variety of methods and making assumptions based on important market conditions existing at the end of each reporting period (Note 35).

(f) Impairment of financial assets

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(g) Net defined benefit liability (asset)

The present value of net defined benefit liability (asset) depends on a number of factors that are determined on an actuarial basis using a number of assumptions, especially the change in discount rate (Note 19).

4. Segment Information

Management determines the operating segments based on the information reviewed by the chief operating decision-maker who formulates the management strategy. Chief operating decision-maker reviews the business from perspective of products of each segment.

The main products of each business division are as follows:

Divisions	Products
Cosmetics	Skin care, other beauty products, and others
DB(Daily Beauty) & Sulloc	Personal care goods, green tea, and others

The segment information for revenue and operating profit for the years ended December 31, 2018 and 2017 is as follows:

(in millions of Korean won)	2018		2017	
	Revenue	Operating profit(loss)	Revenue	Operating profit
Cosmetics	₩ 4,735,051	₩ 484,558	₩ 4,579,225	₩ 580,016
DB(Daily Beauty) & Sulloc	542,794	(2,577)	544,601	16,383
	₩ 5,277,845	₩ 481,981	₩ 5,123,826	₩ 596,399

External revenues by geographic areas for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018	2017
Korea	₩ 3,167,269	₩ 3,199,541
Asia	2,003,722	1,832,736
North America	71,930	57,063
Others	34,924	34,486
	₩ 5,277,845	₩ 5,123,826

There is no external customer attributing to more than 10% of total revenues for the years ended December 31, 2018 and 2017.

5. Financial Instruments by Category

Categorizations of financial instruments as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018	2017
Financial assets at amortized cost	Cash and cash equivalents	₩ 656,946	₩ -
	Current financial deposits	15,100	-
	Non-current financial deposits	14,828	-
	Current debt securities	30,000	-
	Non-current debt securities	3,092	-
	Trade receivables	286,689	-
	Current other receivables	31,275	-
	Non-current other receivables	168,382	-
	Other current assets[1]	563	-
Financial assets at fair value through profit or loss	Cash and cash equivalents	78,565	-
	Debt securities	3,956	-
Financial assets at fair value through other comprehensive income	Equity securities	2,690	-
Loans and receivables	Cash and cash equivalents	-	604,188
	Current financial deposits	-	32,000
	Non-current financial deposits	-	13,872
	Trade receivables	-	324,665
	Current other receivables	-	55,312
	Non-current other receivables	-	170,367
	Other current assets[1]	-	1,731
Available-for-sale financial assets	Equity securities	-	4,948
	Current debt securities	-	30,000
	Non-current debt securities	-	8,333
		₩ 1,292,086	₩ 1,245,416
Financial liabilities at amortized cost	Trade payables	111,833	132,084
	Short-term borrowings	71,453	85,052
	Long-term borrowings	44,687	42,903
	Other payables	249,629	212,057
	Other current liabilities[2]	139,990	211,647
	Other non-current liabilities[3]	20,807	17,998
		₩ 638,399	₩ 701,741

[1] Other current assets represent accrued income (Note 14).

[2] Other current liabilities are comprised of dividend payables, accrued expenses, refund liabilities and finance lease liabilities (Note 18).

[3] Other non-current liabilities are comprised of deposits received and accrued expenses (Note 18).

Net gains or losses on each category of financial instruments for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		**2018**		**2017**
Financial assets at fair value through profit or loss				
Loss on valuation (Profit or loss)	₩	(352)	₩	-
Gain on disposal (Profit or loss)		101		-
Interest income		7,571		-
Financial assets at fair value through other comprehensive income				
Gain on valuation (Other comprehensive income)		490		-
Reclassified gain on valuation to equity (Other comprehensive income)		1,143		-
Dividend income		39		-
Financial assets at amortized cost				
Interest income		5,018		-
Gain on foreign currency translation		6,672		-
Bad debt expenses		(6,648)		-
Available-for-sale financial assets				
Loss on valuation (Other comprehensive income)		-		(205)
Gain on disposal (Profit or loss)		-		969
Loss on disposal (Profit or loss)		-		(249)
Interest income		-		1,141
Dividend income		-		157
Loans and receivables				
Interest income		-		12,676
Loss on foreign currency translation		-		(31,010)
Bad debt expenses		-		(739)
Financial liabilities at amortized cost				
Interest expense		(2,335)		(3,080)
Gain(loss) on foreign currency translation		(4,002)		9,834

6. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Cash on hand	₩	289	₩	212
Ordinary deposits		192,456		141,646
Checking accounts		58,613		60,152
Other accounts		484,153		402,178
	₩	735,511	₩	604,188

Cash and cash equivalents include bank deposits with maturity of three months or less since the date of acquisition.

7. Financial assets

As explained in Note 2, Group applied Korean IFRS 1109 Financial Instruments on January 1, 2018. Refer to note 36 for further details on the impact and financial instruments classification of the application of the standard.

7.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018		2017[1]	
	Current	Non-current	Current	Non-current
Cash and cash equivalents :				
Beneficiary certificates	₩ 78,565	₩ -	₩ -	₩ -
Financial assets at fair value through profit or loss :				
Beneficiary certificates[1]	-	3,956	-	-
	₩ 78,565	₩ 3,956	₩ -	₩ -

[1] In the prior financial year, the Group classified the financial instruments as available-for-sale with intention of holding them for the medium to long-term.

Amounts recognized in profit or loss for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018	2017
Gain (loss) from financial assets at fair value through profit or loss	₩ 7,320	₩ -
	₩ 7,320	₩ -

7.2 Financial assets at fair value through other comprehensive i

ncome

Financial assets at fair value through other comprehensive income as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017[1]
Equity instruments:				
Listed equity securities				
Meritz Securities Co., Ltd.	₩	832	₩	-
GL Pharm Tech Corporation		1,275		-
Unlisted equity securities				
Welskin Co., Ltd.		48		-
The Korea Economic Daily		81		-
ELANDRETAIL Ltd.		3		-
Biogenics Inc.		450		-
	₩	2,689	₩	-

[1] In the prior financial year, the Group classified the equity instruments as available-for-sale with intention of holding them for the medium to long-term.

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

Changes in financial assets at fair value through other comprehensive income for the year ended December 31, 2017, are as follows:

(in millions of Korean won)		2018		2017[1]
Beginning balance	₩	4,948	₩	-
Acquisitions		-		-
Disposals[2]		(3,199)		-
Gain on valuation		940		-
Net gain (loss) reclassified from equity		-		-
Ending balance	₩	2,689	₩	-

[1] In the prior financial year, the Group classified the equity instruments as available-for-sale with intention of holding them for the medium to long-term.

[2] Gain (loss) on valuation amounting to ₩ 3,168 million was reclassified from other comprehensive income to equity on disposal of instruments.

7.3 Trade and other receivables

Trade receivables and its provisions for impairment as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Trade receivables	₩	289,404	₩	328,313
Less: provision for impairment of trade receivables		(2,715)		(3,648)
Trade receivables, net	₩	286,689	₩	324,665

Other receivables and its provisions for impairment as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018				2017			
		Current		Non-current		Current		Non-current
Non-trade receivables	₩	31,748	₩	-	₩	44,773	₩	-
Loans		4		27,529		17		32,812
Deposits provided		-		140,853		10,999		137,555
Less: provision for impairment of other receivables		(477)		-		(477)		-
	₩	31,275	₩	168,382	₩	55,312	₩	170,367

Movements on the provision for impairment of trade receivables for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Beginning balance	₩	3,648	₩	3,428
Impairment loss		2,848		739
Receivables written off		(3,639)		(528)
Exchange differences		(142)		9
Ending balance	₩	2,715	₩	3,648

Provision for impaired receivables and unused amounts reversed are included in ‘selling and administrative expenses (Note 27)’ in the statement of profit or loss. When there is no possibility of recovering additional cash, impairment provision is generally written off.

The Group’s trade and other receivables are spread to a great number of customers, so there is no concentration of important credit risk. The maximum exposure of trade and other receivables to credit risk at the end of reporting period is the carrying amount of each class of receivables mentioned above.

8. Inventories

Inventories as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Merchandise and Finished goods	₩	276,277	₩	259,893
Raw materials		32,270		23,809
Subsidiary materials		23,788		19,235
Others		70,970		71,822
	₩	403,305	₩	374,759

The amount of inventories recognized as an expense during the year ended December 31, 2018 mounts to ₩ 1,187,036 million (2017: ₩ 1,175,125 million).

Loss on valuation of inventories and loss on disposal of inventories for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Loss on valuation of inventories (Reversal)	₩	4,828	₩	(2,916)
Loss on disposal of inventories		43,221		33,733
	₩	48,049	₩	30,817

9. Associates

Associate as at December 31, 2018 and 2017 is as follows:

(in millions of Korean won)	Percentage of ownership (%)	2018 Acquisition cost	2018 Carrying amount	2018 Net asset amount	2017 Acquisition cost	2017 Carrying amount	2017 Net asset amount
Taiwan AMORE Co.,Ltd.	50.0	₩ 131	₩ 2,346	₩ 2,346	₩ 131	₩ 2,381	₩ 2,381
		₩ 131	₩ 2,346	₩ 2,346	₩ 131	₩ 2,381	₩ 2,381

Changes in investments in associate for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	Taiwan AMORE Co.,Ltd. 2018	Taiwan AMORE Co.,Ltd. 2017
Beginning balance	₩ 2,381	₩ 2,656
Share of profit or loss of associates	31	79
Share of other comprehensive income of associates	(55)	82
Dividends received	(107)	(108)
Exchange differences	96	(328)
Ending balance	₩ 2,346	₩ 2,381

Summary of financial information of associate as at and for the years ended December 31, 2018 and 2017 is as follows:

(in millions of Korean won)	2018				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 5,592	₩ 900	₩ 5,149	₩ 62	₩ (48)

(in millions of Korean won)	2017				
	Total assets	Total liabilities	Revenue	Profit for the period	Comprehensive income
Taiwan AMORE Co.,Ltd.	₩ 5,248	₩ 486	₩ 5,768	₩ 159	₩ 322

10. Property, Plant and Equipment

Details of property, plant and equipment as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018			2017		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
Land	₩ 835,361	₩ -	₩ 835,361	₩ 775,135	₩ -	₩ 775,135
Buildings	1,288,677	(184,845)	1,103,832	1,231,676	(161,153)	1,070,523
Structures	57,202	(23,266)	33,936	51,715	(20,113)	31,602
Machinery	530,617	(210,802)	319,815	442,041	(187,025)	255,016
Vehicles	2,063	(1,569)	494	2,186	(1,439)	747
Tools	164,075	(136,714)	27,361	155,393	(127,863)	27,530
Fixtures and furniture	859,230	(564,627)	294,603	746,377	(447,534)	298,843
Others	1,516	(1,106)	410	748	(615)	133
Construction in progress	97,316	-	97,316	153,643	-	153,643
	₩ 3,836,057	₩ (1,122,929)	₩ 2,713,128	₩ 3,558,914	₩ (945,742)	₩ 2,613,172

Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018							
	Beginning balance	Acquisition	Reclassification	Disposal	Depreciation	Others[1]	Exchange differences	Ending balance
Land	₩ 775,135	₩ -	₩ 67,805	₩ (1,584)	₩ -	₩ (6,578)	₩ 583	₩ 835,361
Buildings	1,070,523	9,649	72,864	(11,317)	(34,424)	(2,317)	(1,146)	1,103,832
Structures	31,602	2,098	3,961	(131)	(3,689)	-	95	33,936
Machinery	255,016	30,087	73,082	(2,189)	(35,859)	-	(322)	319,815
Vehicles	747	-	-	(44)	(209)	-	-	494
Tools	27,530	14,547	2,193	-	(16,869)	-	(40)	27,361
Fixtures and furniture	298,843	116,121	15,652	(3,119)	(134,270)	-	1,376	294,603
Other	133	643	-	-	(363)	-	(3)	410
Construction in progress	153,643	140,426	(195,255)	(1,597)	-	-	99	97,316
	₩ 2,613,172	₩ 313,571	₩ 40,302	₩ (19,981)	₩ (225,683)	₩ (8,895)	₩ 642	₩ 2,713,128

[1]Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 6,578 million on land and to ₩ 2,317 million on building.

(in millions of Korean won)	2017							
	Beginning balance	Acquisition	Reclassification[1]	Disposal	Depreciation	Impairment loss	Exchange differences	Ending balance
Land	₩ 819,587	₩ -	₩ (44,518)	₩ -	₩ -	₩ -	₩ 66	₩ 775,135
Buildings	559,771	5,981	531,991	-	(21,855)	-	(5,365)	1,070,523
Structures	31,304	3,076	478	(157)	(2,878)	-	(221)	31,602
Machinery	195,053	16,172	76,319	(201)	(31,359)	-	(968)	255,016
Vehicles	739	23	260	(23)	(251)	-	(1)	747
Tools	25,827	16,950	251	-	(15,279)	-	(219)	27,530
Fixtures and furniture	258,137	125,024	48,971	(2,951)	(123,783)	-	(6,555)	298,843
Other	169	3	-	-	(31)	-	(8)	133
Construction in progress	468,052	635,604	(943,741)	(5,525)	-	-	(747)	153,643
	₩ 2,358,639	₩ 802,833	₩ (329,989)	₩ (8,857)	₩ (195,436)	₩ -	₩ (14,018)	₩ 2,613,172

[1] In relation to the construction of the new building in Yongsan, Seoul, the Group reclassified carrying amount of ₩ 329,989 million based on lease ratio to investment property (Note 12).

Allocation details of depreciation of property, plant and equipment are as following:

(in millions of Korean won)		**2018**		**2017**
Selling and administrative expenses[1]	₩	161,939	₩	134,972
Cost of sales		63,744		60,464
	₩	225,683	₩	195,436

[1] The amount includes depreciation expense allocated to research and development expense.

Details of property, plant and equipment provided as collaterals as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	**2018**				
	Carrying amount	**Secured amount**	**Related line item**	**Related amount**	**Secured party**
Land and buildings		₩ 1,249	Leasehold deposits received	₩ 961	National Pension Service
Land and buildings		303	Leasehold deposits received	253	Lotte Card Co., Ltd.
Land and buildings	₩ 20,233	74	Leasehold deposits received	57	Samsung Life Insurance Co., Ltd.
Land and buildings		151	Leasehold deposits received	116	National Human Rights Commission of Korea
Buildings	16,814	3,594	Leasehold deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings		718	Leasehold deposits received	718	Korea Workers' Compensation & Welfare Service

(in millions of Korean won)	**2017**				
	Carrying amount	**Secured amount**	**Related line item**	**Related amount**	**Secured party**
Land and buildings		₩ 1,249	Leasehold deposits received	₩ 961	National Pension Service
Land and buildings		303	Leasehold deposits received	253	Lotte Card Co., Ltd.
Land and buildings	₩ 20,596	74	Leasehold deposits received	57	Samsung Life Insurance Co., Ltd.
Land and buildings		151	Leasehold deposits received	116	National Human Rights Commission of Korea
Buildings	17,366	3,594	Leasehold deposits received	3,594	Korea Workers' Compensation & Welfare Service
Buildings	358	100	Leasehold deposits received	100	Social Welfare Organization Cheonggwang

Details of finance lease

One of the subsidiaries, AMOREPACIFIC EUROPE S.A.S, leases land and buildings under non-cancellable finance lease agreements. Lease term was until the end of 2018; after the termination of the lease term, the ownership of the lease property transferred to AMOREPACIFIC EUROPE S.A.S. and the property was sold.

Details of operating lease

The Group leases offices, stores, some of warehouses and computer facilities under non-cancellable operating lease agreements. The lease terms are from 1 to 5 years. The lease payments recognized as expenses for the years ended December 31, 2018, is ₩ 255,391 million (2017: ₩ 262,817 million).

Total minimum lease payments in relation to non-cancellable operating leases that are payable at the end of the reporting period are as follows:

(in millions of Korean won)		**2018**
Within one year	₩	171,026
Later than one year but not later than five years		228,513
Later than five years		15,651
	₩	415,190

11. Intangible Assets

Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	**2018**				
	Goodwill	**Industrial property**	**Software**	**Others**	**Total**
Beginning balance	₩ 24,921	₩ 21,173	₩ 121,346	₩ 72,295	₩ 239,735
Acquisition	-	-	11,091	40,134	51,225
Reclassification	-	7,265	16,233	(24,356)	(858)
Disposal	-	(57)	(4)	(1,120)	(1,181)
Amortization	-	(2,739)	(27,537)	(688)	(30,964)
Impairment loss	(3,113)	-	-	(1,202)	(4,315)
Exchange differences	502	(6)	36	(59)	473
Ending balance	₩ 22,310	₩ 25,636	₩ 121,165	₩ 85,004	₩ 254,115

(in millions of Korean won)	**2017**				
	Goodwill	**Industrial property**	**Software**	**Others**	**Total**
Beginning balance	₩ 26,768	₩ 14,806	₩ 116,522	₩ 69,998	₩ 228,094
Acquisition	-	-	8,008	34,775	42,783
Reclassification	-	8,448	21,979	(30,427)	-
Disposal	-	(16)	(193)	(670)	(879)
Amortization	-	(2,086)	(24,528)	(595)	(27,209)
Impairment loss	-	-	-	(40)	(40)
Exchange differences	(1,847)	21	(442)	(746)	(3,014)
Ending balance	₩ 24,921	₩ 21,173	₩ 121,346	₩ 72,295	₩ 239,735

Allocation details of amortization of intangible assets are as following:

	2018		2017	
Selling and administrative expenses[1]	₩	29,508	₩	26,119
Cost of sales		1,456		1,090
	₩	30,964	₩	27,209

[1] The amount includes amortization expense allocated to research and development expense.

The management of the Group allocates goodwill into cash-generating units (CGUs). Following is a summary of goodwill allocation for each operating segment:

(in millions of Korean won)	2018		2017	
Annick Goutal CGU	₩	2,723	₩	5,790
AMOREPACIFIC Hong Kong CGU		7,935		7,619
China CGU		3,957		3,979
Vietnam CGU		3,502		3,429
Singapore Etude House CGU		3,346		3,274
Thailand CGU		549		524
Indonesia CGU		298		306
	₩	22,310	₩	24,921

The recoverable amounts of all CGUs have been determined based on value-in-use calculations, and the key assumptions used for value-in-use calculations in 2018 are as follows:

	Annick Goutal CGU	AMOREPACIFIC Hong Kong CGU	China CGU	Vietnam CGU	Singapore Etude House CGU
Gross margin rate	74.26%	71.13%	69.01%	65.17%	80.78%
Growth rate[1]	15.93%	10.22%	15.67%	27.52%	5.40%
Pre-tax discount rate	9.28%	8.25%	16.81%	9.29%	7.11%

[1] Weighted average revenue growth rate used to extrapolate cash flows for a five-year period is measured based on the past performance and the expectation for market development.

During 2018, as a result of impairment test for goodwill, impairment loss of ₩ 3,113 million was recognized because the carrying amount of Annick Goutal exceeded the recoverable amount.

12. Investment Properties

Details of investment property as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018 Cost	2018 Accumulated depreciation	2018 Carrying amount	2017 Cost	2017 Accumulated depreciation	2017 Carrying amount
Land	₩ 231,862	₩ -	₩ 231,862	₩ 239,183	₩ -	₩ 239,183
Buildings	281,914	(12,338)	269,576	327,538	(6.711)	320,827
Structures	-	-	-	115	(80)	35
Construction in progress	-	-	-	-	-	-
	₩ 513,775	₩ (12,338)	₩ 501,437	₩ 566,836	₩ (6,791)	₩ 560,045

Changes in investment property for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018 Land	Building	Structures	Construction in process	Total
Beginning balance	₩ 239,183	₩ 320,827	₩ 35	₩ -	₩ 560,045
Acquisition	-	-	-	-	-
Recclassification[1]	-	(39,445)	-	-	(39,445)
Depreciation	-	(9,460)	(2)	-	(9,462)
Disposal	(2,617)	(689)	(33)	-	(3,339)
Others[2]	(4,704)	(1,657)	-	-	(6,361)
Ending balance	₩ 231,862	₩ 269,576	₩ -	₩ -	₩ 501,437

(in millions of Korean won)	2017 Land	Building	Structures	Construction in process	Total
Beginning balance	₩ 157,850	₩ 3,940	₩ 38	₩ 72,743	₩ 234,571
Acquisition	-	-	-	-	-
Recclassification[1]	84,822	317,910	-	(72,743)	329,989
Depreciation	-	(1,023)	(3)	-	(1,026)
Disposal	(3,489)	-	-	-	(3,489)
Ending balance	₩ 239,183	₩ 320,827	₩ 35	₩ -	₩ 560,045

[1] Land located in Yongsan and construction in progress with respect to the construction of the new building were reclassified to property, plant and equipment, due to the change in the plan for rent.
[2] Some of acquisition tax in relation to the construction of the new building were refunded; the amount of refund is ₩ 4,704 million on land and to ₩ 1,657 million on building.

The fair value of investment property as at December 31, 2017, is ₩ 536,892 million (2017: ₩ 546,775 million).

The amount recognized as income and expenses in relation to investment property are ₩ 25,092 million, (2017: ₩ 538 million) and ₩ 7,328 million respectively, for the year ended December 31, 2018.

13. Non-current Assets Held-for-sale

Details of non-current assets held-for-sale as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018			2017		
	Cost	**Accumulated depreciation**	**Carrying amount**	**Cost**	**Accumulated depreciation**	**Carrying amount**
Land	₩ -	₩ -	₩ -	₩ 190,286	₩ -	₩ 190,286
Buildings	-	-	-	31,294	(21,728)	9,566
Structures	-	-	-	5,255	(3,952)	1,303
	₩ -	₩ -	₩ -	₩ 226,835	₩ (25,680)	₩ 201,155

Changes in non-current assets held-for-sale for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018			
	Land	**Building**	**Structures**	**Total**
Beginning balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155
Acquisition	-	-	-	-
Reclassification	-	-	-	-
Depreciation	-	-	-	-
Disposal[1]	(190,286)	(9,566)	(1,303)	(201,155)
Ending balance	₩ -	₩ -	₩ -	₩ -

(in millions of Korean won)	2017			
	Land	**Building**	**Structures**	**Total**
Beginning balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155
Acquisition	-	-	-	-
Reclassification	-	-	-	-
Depreciation	-	-	-	-
Disposal	-	-	-	-
Ending balance	₩ 190,286	₩ 9,566	₩ 1,303	₩ 201,155

[1] During the year ended December 31, 2017, regarding the sales contract for the land and buildings located in Yongin-si, Gyeonggi Province, which was recognized as non-current assets held-for-

sale, the Group received ₩ 21,000 million of outstanding balance from the buyer and transferred its ownership. In connection with the contract, the Group entered into an additional contract, which granted put option to the buyer for the land and buildings. During the year ended December 31, 2018, the buyer did not exercise the put option within the period of exercise; the Group removed the land and building from the financial statements.

There is no cumulative profit or loss directly recognized in other comprehensive income in relation to the above-mentioned non-current assets held-for-sale for the years ended December 31, 2018 and 2017.

14. Other Assets

Details of other assets as at December 31, 2018 and 2017 are as follows:

	2018		2017	
(in millions of Korean won)	**Current**	**Non-current**	**Current**	**Non-current**
Accrued revenues	₩ 563	₩ -	₩ 1,731	₩ -
Advance payments	17,912	-	18,794	-
Prepaid expenses	35,203	23,871	27,657	17,261
Prepaid value added tax	6,783	-	3,688	-
Others	609	-	384	-
	₩ 61,070	₩ 23,871	₩ 52,254	₩ 17,261

15. Borrowings

Details of borrowings as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	Creditor	Interest rate (%) December 31, 2018	2018	2017
Short-term borrowings				
Bank overdrafts of EUR 485,629 (2017: EUR 479,352)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50	₩ 621	₩ 613
Bank overdrafts EUR 5,742,476 (2017: EUR 3,314,343)	KEB Hana Bank Paris Branch	EURIBOR 1M + 1.50	7,346	4,240
Bank overdrafts of JPY 1,000,000,000	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Tibor + 0.45	10,131	-
Loans for working capital of (2017: JPY 500,000,000)	SBJ BANK Yokohama Branch	-	-	4,745
Loans for working capital of EUR 7,000,000	Citibank N.A France	EURIBOR 1M + 1.05	8,954	8,955
Loans for working capital of HKD 110,000,000	CITI N.A HONG KONG	HIBOR + 0.85	15,705	15,078
Loans for working capital of (2017: USD 30,000,000)	Citibank (China) Co. Ltd.	-	-	31,592
Loans for working capital of EUR 12,500,000	KEB Hana Bank Paris Branch	0.95+ MAX(EURIBOR 3M, 0)	15,990	15,991
Loans for working capital of EUR 6,000,000 (2017: EUR 3,000,000)	Citibank N.A France	EURIBOR + 0.65	7,675	3,838
Loans from related parties USD 4,500,000	Innisfree Corporation	3.00	5,031	-
			71,453	85,052
Long-term borrowings				
Loans for working capital HKD 313,000,000	CITI N.A HONG KONG	1.65	44,687	42,903
			44,687	42,903
			₩ 116,140	₩ 127,955

Redemption schedule of long-term borrowings as at December 31, 2018 is as follows:

(in millions of Korean won)	Maturity date	Amount
	2020.07.20	₩ 44,687

16. Provisions

Changes of provisions for liabilities and charges for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018								
	Current						Non-current		
	Refund liabilities	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total
Beginning	₩ 3,778	₩ 2,879	₩ 4,377	₩ 2,632	₩ 1,665	₩ 15,331	₩ 4,105	₩ 901	₩ 5,006
Increase	-	803	1,409	-	-	2,212	3,517	5,242	8,759
Decrease	-	(17)	-	(2,632)	(125)	(2,774)	-	-	-
Transfer	(3,778)	-	-	-	-	(3,778)	-	-	-
Exchange differences	-	106	(2)	-	(10)	94	-	16	16
Ending	₩ -	₩ 3,771	₩ 5,784	₩ -	₩ 1,530	₩ 11,085	₩ 7,622	₩ 6,159	₩ 13,781

[1] Refund liabilities was classified to other liabilities.

(in millions of Korean won)	2017									
	Current							Non-current		
	Provision for sales return	Compensation for sale[1]	Profit-sharing and bonuses	Accumulating compensated absences	Provision for restoration	Others	Total	Long-term employee benefits	Provision for restoration	Total
Beginning	₩ 4,369	₩ 4,000	₩ 4,694	₩ 5,109	₩ -	₩ 1,548	₩ 19,720	₩ 3,549	₩ 738	₩ 4,287
Increase	-	-	1,485	30	5,165	747	7,427	556	193	749
Decrease	(439)	(4,000)	(3,091)	(771)	(2,533)	(651)	(11,485)	-	-	-
Exchange differences	(152)	-	(209)	9	-	21	(331)	-	(30)	(30)
Ending	₩ 3,778	₩ -	₩ 2,879	₩ 4,377	₩ 2,632	₩ 1,665	₩ 15,331	₩ 4,105	₩ 901	₩ 5,006

1

The Group decided to recall certain products sold during 2017 and reimburse customers. In this regard, the Group recognized expected expenses as provisions.

17. Contract liabilities

As explained in Note 2, the Group applied Korean IFRS 1115 *Revenue from Contracts with Customers* on January 1, 2018. Refer to note 36 for further details on the impact of the application of the standard.

Changes in contract liabilities for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	Customer loyalty program	Advances from customers	Total
Beginning balance	₩ 51,839	₩ 12,122	₩ 63,961
Increase/decrease	(12,679)	4,896	(7,783)
Ending balance	₩ 39,160	₩ 17,018	₩ 56,178

18. Other Liabilities

Details of other liabilities as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018		2017	
	Current	**Non-current**	**Current**	**Non-current**
Withholdings	₩ 11,078	₩ -	₩ 10,808	₩ -
Value added tax withheld	41,002	-	31,836	-
Advances from customers	2,584	-	219,369	-
Deposits received	-	20,247	-	17,793
Accrued expenses	134,474	560	209,731	205
Refund liabilities[1]	5,129	-	-	-
Finance lease liabilities	-	-	1,561	-
Dividends payable	387	-	355	-
Others	5,413	253	4,219	1,097
	₩ 200,067	₩ 21,060	₩ 477,879	₩ 19,095

[1] Refund liabilities was classified from provisions for liabilities.

19. Retirement Benefits

19.1 Defined Benefit Plan

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018	2017
Present value of funded defined benefit obligations	₩ 294,165	₩ 285,147
Present value of unfunded defined benefit obligations	3,211	3,116
	297,376	288,263
Fair value of plan assets[1]	(352,694)	(310,527)
Net defined benefit liabilities (assets)	₩ (55,318)	₩ (22,264)

[1] The contributions to the National Pension Fund of ₩ 128 million (2017: ₩ 146 million) are included in the fair value of plan assets as at December 31, 2018.

Changes in the defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Beginning balance	₩	288,263	₩	275,764
Past service cost		21,055		-
Current service cost		31,759		36,355
Interest expense		10,490		9,565
Remeasurements:				
Actuarial gain(loss) from changes in demographic assumptions		(2,511)		-
Actuarial gain(loss) from changes in financial assumptions		(49,759)		(24,061)
Actuarial gain(loss) from experience adjustments		16,139		1,938
Exchange differences		1		16
Payments from plans:				
Benefit payments		(18,898)		(12,739)
Transfer to associates		837		1,425
Others		-		-
Ending balance	₩	297,376	₩	288,263

Changes in the fair value of plan assets for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Beginning balance	₩	310,527	₩	272,454
Interest income		12,331		9,825
Remeasurements:				
Return on plan assets		(7,079)		(5,374)
Contributions:				
Employers		55,070		45,101
Payments from plans:				
Benefit payments		(18,908)		(12,730)
Transfer to associates		753		1,290
Others		-		(39)
Ending balance	₩	352,694	₩	310,527

The significant actuarial assumptions as at December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	3.2%	3.5~3.9%
Salary growth rate	3.0%	5.61%

The sensitivity analyses of the defined benefit obligations to changes in the principal assumptions are as follows:

	Impact on defined benefit obligation		
	Changes in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.00%P	7.29% decrease	8.39% increase
Salary growth rate	1.00%P	8.32% increase	7.37% decrease

The defined benefit liabilities are exposed to a significant risk on changes in corporate bond yields rate.

The above sensitivity analyses are performed under ceteris paribus assumption; however, in practice, changes in some of the assumptions may be interrelated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is measured using the projected unit credit method, the same method used to measure the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Plan assets as at December 31, 2018 and 2017 consist of:

	2018		2017	
(in millions of Korean won)	**Unquoted price**	**Composition**	**Unquoted price**	**Composition**
Deposits	₩ 352,566	99.96 %	₩ 310,381	99.95 %
National Pension Fund	128	0.04 %	146	0.05 %
	352,694	100.00 %	₩ 310,527	100.00 %

The weighted average maturity of the defined benefit obligation is 7.93 years and the expected maturity analysis of the undiscounted pension benefits for the next 10 years as at December 31, 2018, is as follows:

(in millions of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Between 5 and 10 years**	**Total**
Pension benefits	₩ 25,208	₩ 26,979	₩ 84,799	₩ 170,657	₩ 307,643

The Group reviews the funding level on an annual basis and has a policy of covering loss if there is deficit in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2019, are ₩ 34,039 million(2018: ₩ 44,083 million).

19.2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 428 million (2017: ₩ 541 million).

20. Other Components of Equity

Other components of equity as at December 31, 2018 and 2017 consist of:

(in millions of Korean won)	2018	2017
Treasury stock[1]	₩ (1,381)	₩ (1,381)
Other capital adjustments	(16,243)	(16,243)
	₩ (17,624)	₩ (17,624)

[1] The Group holds 33,041 ordinary shares and 6,214 preferred shares as treasury shares, and the Group intends to dispose of the remaining treasury shares depending on the market conditions within the range of not incurring or minimizing loss on disposal of treasury shares as possible.

21. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as at December 31, 2018 and 2017 consists of the following:

(in millions of Korean won)	2018	2017
Changes in financial assets at fair value through other comprehensive income	₩ 262	₩ 1,797
Exchange differences on transaction of foreign operations	(41,702)	(42,051)
Share of other comprehensive income of associates	128	178
	₩ (41,312)	₩ (40,076)

Changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018					
	Effect of accounting policy changes[1]	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Reclassification to non-controlling interest	Ending Balance
Changes in financial assets at fair value through other comprehensive income	₩ -	₩ 1,797	₩ 1,646	₩ (3,168)	₩ (13)	₩ 262
Exchange differences on transaction of foreign operations	-	(42,051)	467	-	(118)	(41,702)
Share of other comprehensive income of associates	-	178	(55)	-	5	128
	₩ -	₩ (40,076)	₩ 2,058	₩ (3,168)	₩ (126)	₩ (41,312)

[1] Refer to Note 36 for the details of changes in accounting policy

(in millions of Korean won)	2017									
		Beginning balance		**Increase (Decrease)**		**Reclassification to profit or loss**		**Reclassification to non-controlling interest**		**Ending Balance**
Changes in the value of available-for-sale financial assets	₩	2,002	₩	(205)	₩	-	₩	-	₩	1,797
Exchange differences on transaction of foreign operations		(19,300)		(24,262)		-		1,511		(42,051)
Share of other comprehensive income of associates		103		82		-		(7)		178
	₩	(17,195)	₩	(24,385)	₩	-	₩	1,504	₩	(40,076)

22. Retained Earnings

Retained earnings as at December 31, 2018 and 2017 consists of:

(in millions of Korean won)		2018		2017
Legal reserves[1]	₩	18,109	₩	18,109
Discretionary reserves		2,109,000		2,109,000
Retained earnings before appropriation		1,598,894		1,329,394
	₩	3,726,003	₩	3,456,503

[1] The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve amounts to 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

23. Dividends

The dividends paid in 2018 and 2017 are as follows:

	2018				2017			
	Ordinary shares		**Preferred shares**		**Ordinary shares**		**Preferred shares**	
Dividends paid	₩	74,785 million	₩	13,559 million	₩	92,312 million	₩	16,724 million
Dividends per share (in Korean won)		1,280		1,285		1,580		1,585

Dividends in respect of the year ended December 31, 2018, of ₩ 1,180 per ordinary share and ₩ 1,185 per preferred share, amounting to a total dividend of ₩ 68,942 million on ordinary shares and ₩ 12,504 million on preferred shares, are to be proposed at the annual general shareholders' meeting on March 15, 2019. The financial statements for the year ended December 31, 2018 do not reflect the dividend payable.

24. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2018 and 2017 consists of:

(in millions of Korean won)		2018		2017
Current tax	₩	145,343	₩	186,002
Deferred tax		(27,201)		(16,661)
Income tax expense	₩	118,142	₩	169,341

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(in millions of Korean won)		2018		2017
Profit before income tax expense	₩	452,987	₩	567,344
Tax at domestic tax rates applicable to profits in the respective countries		113,263		138,298
Tax effects of:				
Income not subject to tax		(174)		(15)
Expenses not deductible for tax purposes		9,405		6,770
Tax losses for which no deferred income tax asset was recognized		3,333		7,365
Utilization of previously unrecognized tax losses		(2,181)		(5,075)
Impact on deferred income tax due to changes in tax rate		-		5,628
Tax credits		(1,819)		(2,168)
Adjustment in respect of prior years		(3,956)		17,542
Others		269		996
Income tax expense	₩	118,140	₩	169,341

The weighted average applicable tax rate of the Group was 26.08% (2017: 29.85%).

The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2018 and 2017 is as follows:

(in millions of Korean won)	2018			2017		
	Before tax	**Tax effect**	**After tax**	**Before tax**	**Tax effect**	**After tax**
Gain(loss) on valuation of available-for-sale financial assets	₩ -	₩ -	₩ -	₩ (212)	₩ 7	₩ (205)
Gain(loss) on valuation of financial assets at fair value through other comprehensive income	940	579	1,519	-	-	-
Remeasurements	29,053	(7,553)	21,500	16,749	(3,887)	12,862
Share of other comprehensive income of associates	(55)	-	(55)	82	-	82
Exchange differences on transaction of foreign operations	467	-	467	(24,262)	-	(24,262)
	₩ 30,405	₩ (6,974)	₩ 23,431	₩ (7,643)	₩ (3,880)	₩ (11,523)

The period analysis of deferred tax assets and liabilities as at December 31, 2018 and 2017 is as follows:

(in millions of Korean won)	2018	2017
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 123,077	₩ 88,470
Deferred tax asset to be recovered within 12 months	69,501	57,807
Deferred tax liabilities		
Deferred tax liability to be settled after more than 12 months	(210,865)	(183,132)
Deferred tax liability to be settled within 12 months	(2,954)	(4,175)
Deferred tax liabilities, net	₩ (21,241)	₩ (41,030)

The changes in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Changes in the temporary differences and related deferred tax assets and liabilities are as follows:

(in millions of Korean won)	2018				
	Beginning balance	**Statement of profit or loss**	**Other comprehensive income or loss**	**Exchange differences**	**Ending balance**
Deferred tax assets					
Provision for impairment	₩ 1,059	₩ 156	₩ -	₩ (1)	₩ 1,214
Trade receivables	11,224	4,221	-	-	15,445
Other receivables	-	536	-	-	536
Non-current assets held-for-sale	1,276	(1,277)	-	-	(1)
Inventories	8,884	5,760	-	10	14,654
Property, plant and equipment	11,965	23,493	-	(27)	35,431
Intangible assets	5	312	-	-	317
Government grants	112	78	-	-	190
Financial assets at fair value through other comprehensive income	(23)	-	579	-	556
Investments in subsidiaries	901	1,072	-	-	1,973
Deferred revenue	13,252	(3,443)	-	-	9,809
Accrued expenses	23,975	9,896	-	(346)	33,525
Provision for sales return	743	443	-	(1)	1,185
Accumulating compensated absences	962	353	-	-	1,315
Retirement benefit obligations	684	568	-	-	1,252
Post-employment benefit obligations	65,015	10,745	(9,387)	-	66,373
Long-term employee benefits	1,068	914	-	-	1,982
Other current liabilities	2,018	2,380	-	-	4,398
Tax loss carryforwards	(2)	820	-	14	832
Others	508	1,180	-	(102)	1,586
	143,626	58,208	(8,808)	(453)	192,574
Deferred tax liabilities					
Accrued revenue	(313)	134	-	-	(179)
Other receivables	(83)	(2,438)	-	-	(2,521)
Inventories	(2,050)	(725)	-	-	(2,775)
Property, plant and equipment	(93,270)	2,347	-	-	(90,923)
Intangible assests	(4,801)	23	-	15	(4,763)
Financial assets at fair value through other comprehensive income	2	-	-	-	2
Investments in subsidiaries	1	-	-	-	1
Plan assets	(80,673)	(12,796)	1,840	-	(91,629)
Reserve for technology development	(3,467)	3,467	-	-	-
Advanced depreciation provision	-	(20,949)	-	-	(20,949)
Other current liabilities	(2)	(1)	-	-	(3)
Others	-	(72)	(5)	-	(77)
	(184,656)	(31,010)	1,835	15	(213,816)
	₩ (41,030)	₩ 27,198	₩ (6,973)	₩ (438)	₩ (21,242)

Changes in the temporary differences and related deferred tax assets and liabilities are as follows:

(in millions of Korean won)	2017					
	Beginning balance	**Statement of profit or loss**	**Other comprehensive income**	**Effect of tax rate changes**	**Exchange differences**	**Ending balance**
Deferred tax assets						
Provision for impairment	₩ 711	₩ 405	₩ -	₩ -	₩ (57)	₩ 1,059
Trade receivables	14,641	(4,194)	-	777	-	11,224
Other receivables	2,684	(2,684)	-	-	-	-
Non-current assets held-for-sale	-	1,188	-	88	-	1,276
Inventories	9,983	(1,098)	-	-	(1)	8,884
Property, plant and equipment	10,668	1,298	-	329	(346)	11,949
Intangible assets	5	-	-	-	-	5
Government grants	432	(328)	-	8	-	112
Investments in subsidiaries	1,903	-	-	-	-	1,903
Deferred revenue	13,589	(1,082)	-	835	(90)	13,252
Accrued expenses	26,019	1,892	-	-	(3,936)	23,975
Provision for sales return	1,693	(995)	-	48	(3)	743
Provision for restoration	-	637	-	47	-	684
Accrual for accumulated paid leave	980	(85)	-	67	-	962
Post-employment benefit obligations	56,063	9,625	(5,134)	4,455	6	65,015
Long-term employee benefits	859	135	-	74	-	1,068
Other current liabilities	2,878	514	-	252	-	3,644
Tax loss carryforwards	709	(660)	-	-	(51)	(2)
Others	490	(2)	-	36	-	524
	144,307	4,566	(5,134)	7,016	(4,478)	146,277
Deferred tax liabilities						
Accrued revenue	(752)	461	-	(22)	-	(313)
Other receivables	(82)	5	-	(6)	-	(83)
Inventories	(2,616)	708	-	(142)	-	(2,050)
Property, plant and equipment	(103,577)	16,764	-	(6,457)	-	(93,270)
Intangible assests	(4,846)	(48)	-	(53)	146	(4,801)
Available-for-sale financial assets	(72)	-	8	43	-	(21)
Investments in subsidiaries	(931)	-	-	(70)	-	(1,001)
Plan assets	(65,886)	(10,448)	1,246	(5,585)	-	(80,673)
Reserve for technology development	(12,504)	9,277	-	(240)	-	(3,467)
Other current liabilities	(2,520)	1,004	-	(112)	-	(1,628)
	(193,786)	17,723	1,254	(12,644)	146	(187,307)
	₩ (49,479)	₩ 22,289	₩ (3,880)	₩ (5,628)	₩ (4,332)	₩ (41,030)

Deferred tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 196,406 million in respect of losses that can be carried forward against future taxable income.

The maturity of unused tax losses is as follows:

(in millions of Korean won)	**2018**
2019 ~ 2020	₩ 4,821
2021 ~ 2037	76,542
No limit	115,043
	₩ 196,406

The temporary differences from the subsidiaries whose disposal is not in the foreseeable future were not recognized because of the uncertainty in realizability of the deferred tax assets (liabilities), and the amount as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018
Taxable temporary differences	₩	(151,233)
	₩	(151,233)

25. Revenue

Revenue of the Group for the years ended December 31, 2018 and 2017 consists of the following:

(in millions of Korean won)		2018		2017
Sales of goods	₩	5,206,285	₩	5,089,585
Rendering of services		40,534		28,466
Others				
Rental income		27,772		3,433
Royalty income		277		554
Others		2,977		1,788
		31,026		5,775
	₩	5,277,845	₩	5,123,826

26. Classification based on the nature of expenses

Classification based on the nature of expenses for the years ended December 31, 2018 and 2017 is as follows:

(in millions of Korean won)		2018		2017
Changes in inventories	₩	(28,546)	₩	35,107
Purchase of raw materials and merchandise		1,215,582		1,140,018
Employee benefits expenses		744,279		673,432
Depreciation and amortization		265,878		223,431
Advertising expense		592,663		534,406
Commission expense		548,373		525,666
Distribution commission		847,342		800,031
Other expenses		610,293		595,336
Total[1]	₩	4,795,864	₩	4,527,427

[1] Sum of cost of sales and selling and administrative expenses in the statements of comprehensive income

27. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Salaries and retirement benefits	₩	492,695	₩	454,790
Employee benefits		96,731		84,511
Advertising expense		592,663		534,406
Depreciation		192,242		153,570
Commission expense		486,774		469,059
Distribution commission		847,342		800,031
Freight expense		103,363		100,122
Taxes and dues		36,788		37,009
Research and development		95,559		91,848
Other		416,831		422,355
	₩	3,360,988	₩	3,147,701

28. Finance Income and Costs

Details of financial income and costs for the years ended December 31, 2018 and 2017 are as follows:

(*in millions of Korean won*)		2018		2017
Finance income				
Interest income	₩	12,589	₩	13,817
Gain on disposal of financial assets at fair value through profit or loss		101		-
	₩	12,690	₩	13,817
Finance costs				
Interest expense	₩	(2,335)	₩	(3,080)
Loss on valuation of financial assets at fair value through profit or loss		(352)		-
	₩	(2,687)	₩	(3,080)

29. Other Non-operating Gain (Loss)

Details of other non-operating gain (loss) for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		**2018**		**2017**
Other non-operating income				
Gain on foreign currency transactions	₩	17,988	₩	14,044
Gain on foreign currency translation		3,083		5,800
Gain on disposal of property, plant and equipment		1,199		1,628
Gain on disposal of intangible assets		524		-
Gain on disposal of Investment properties		58		-
Gain on disposal of Non-current assets held-for-sale		4,912		-
Dividend income		39		157
Others		9,965		20,528
		37,768		42,157
Other non-operating expenses				
Loss on foreign currency transactions		(14,994)		(27,692)
Loss on foreign currency translation		(3,407)		(13,328)
Loss on disposal of property, plant and equipment		(6,989)		(8,622)
Loss on disposal of intangible assets		(649)		(301)
Loss on disposal of investment properties		(877)		(89)
Impairment losses of intangible assets		(4,315)		(40)
Donations		(11,278)		(10,948)
Others		(34,287)		(21,009)
		(76,796)		(82,029)
	₩	(39,028)	₩	(39,872)

30. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares (Note 20).

Basic earnings per ordinary share for the years ended December 31, 2018 and 2017 is as follows:

(in millions of Korean won)		2018		2017
Profit attributable to owners of the Parent Company	₩	332,195	₩	394,011
Profit attributable to ordinary shares		281,333		333,692
Weighted average number of ordinary shares outstanding (unit: shares)		58,425,449		58,425,449
Basic earnings per ordinary share (in Korean won)	₩	4,815	₩	5,711

Basic earnings per preferred share[1] for the years ended December 31, 2018 and 2017 is as follows:

(in millions of Korean won)		2018		2017
Profit attributable to owners of the Parent Company	₩	332,195	₩	394,011
Profit attributable to preferred shares		50,862		60,319
Weighted average number of preferred shares outstanding (unit: shares)		10,551,616		10,551,617
Basic earnings per preferred share (in Korean won)	₩	4,820	₩	5,717

[1]Although there is no preferred right on the preferred share, it is considered as an ordinary share with a different dividend rate (annually 1% additional dividends) from other types of ordinary share; therefore, it is included in calculation of basic earnings per share.

The Group did not issue any potential ordinary shares; thus, basic earnings per share is identical to diluted earnings per share.

31. Cash flows Generated from Operations

Details of cash flows generated from operations for the years ended December 31, 2018 and 2017 are as follows:

(*in millions of Korean won*)		2018		2017
Profit for the period	₩	334,845	₩	398,003
Adjustments for:		484,333		481,522
Finance income, net		(10,254)		(10,737)
Loss(gain) on foreign currency translation, net		324		7,528
Loss on foreign currency transactions, net		(669)		3,374
Depreciation and amortization		266,109		223,671
Loss on disposal of property, plant and equipment and intangible assets		4,976		7,294
Loss on disposal of Investment properties		819		90
Gain on disposal of Non-current assets held-for-sale		(4,912)		-
Impairment loss of property, plant and equipment and intangible assets		4,315		40
Gain on disposal of financial assets at fair value through profit or loss		(101)		-
Loss on valuation of financial assets at fair value through profit or loss		352		-
Income tax expense		118,142		169,341
Share of profit of associates		(31)		(79)
Retirement benefits		50,973		36,095
Loss on disposal and valuation of inventories		48,049		30,817
Others		6,241		14,088
Changes in assets and liabilities from operating activities		(28,066)		(123,835)
Decrease (increase) in trade receivables		36,773		(36,504)
Decrease in other receivables		27,953		1,043
Decrease (increase) in inventories		(76,595)		4,290
Decrease (increase) in other assets		(4,857)		17,720
Decrease in trade payables		(19,967)		(31,618)
Increase(decrease) in other payables		35,796		(41,037)
Decrease in Contract liabilities		(7,783)		-
Increase (decrease) in provisions		3,493		(8,835)
Increase in other liabilities		32,097		16,042
Retirement benefits payment		(18,898)		(12,739)
Net transfer-in (transfer-out) of post-employment benefits of associates		837		1,425
Increase in plan assets, net		(36,915)		(33,622)
Cash generated from operations	₩	791,112	₩	755,690

Significant non-cash transactions for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		2018		2017
Reclassification of construction in-progress to property, plant and equipment	₩	195,254	₩	847,809
Reclassification of construction in-progress to Intangible assets		24,356		30,427
Reclassification of property, plant and equipment to investment properties		-		329,989
Reclassification of investment property to property, plant and equipment		39,445		-
Advances from disposal of non-current assets held-for-sale		(206,067)		21,004
Non-trade payables related to the acquisition of property, plant and equipment and intangible assets		(91,907)		(61,457)

Changes in liabilities arising from financing activities for the periods ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		Short-term borrowings		Current portion of long-term borrowings		Borrowings		Total
At January 1, 2017	₩	96,376	₩	48,309	₩	-	₩	144,685
Cash flows		(3,595)		(44,992)		45,426		(3,161)
Exchange differences		(7,729)		(3,317)		(2,523)		(13,569)
At December 31, 2017	₩	85,052	₩	-	₩	42,903	₩	127,955
Cash flows		(15,134)		-		-		(15,134)
Exchange differences		1,535		-		1,784		3,319
At December 31, 2018	₩	71,453	₩	-	₩	44,687	₩	116,140

32. Commitments and Contingencies

Details of financial commitment with financial institution as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won and thousands of U.S. dollars)

Financial institution	Commitment	2018 Limit	2018 Outstanding balance	2017 Limit	2017 Outstanding balance
WOORI BANK	Electronic loan agreement	₩ 15,000	₩ 160	₩ 21,000	₩ 1,135
	Letter of credit	USD 4,000	USD 131	USD 4,000	-

At the end of reporting period, Seoul Guarantee Insurance has provided the Company with payment guarantees such as performance guarantees and others amounting to ₩ 131,889 million (2017 ₩ 9,592 million).

Important contracts subsidiaries entered into with financial institutions at the end of reporting period are as follows:

(in millions of Korean won and thousands of USD, EUR, HKD and JPY)	Financial institution	Commitment	2018 Limit	2018 Outstanding balance	2017 Limit	2017 Outstanding balance
Amorepacific Global Operations Limited.	CITI N.A HONG KONG	Long-term borrowings	HKD 313,000	HKD 313,000	HKD 313,000	HKD 313,000
	CITI N.A HONG KONG	Short-term borrowings	HKD 220,000	HKD 110,000	HKD 220,000	HKD 110,000
	CITY N.A HONG KONG	Overdraft	USD 10,000	-	USD 10,000	-
AMORE Cosmetics (shanghai) Co., Ltd.	Citibank (China) Co., Ltd	Short-term borrowing	-	-	USD 30,000	USD 30,000
AMOREPACIFIC Hong Kong Co., Limited	Hang Seng Bank	Overdraft and others	HKD 15,000	-	HKD 15,000	-
	Bank of East Asia	Overdraft and others	HKD 10,000	-	HKD 10,000	-
AMOREPACIFIC Japan CO., LTD	Bank of Tokyo-Mitsubishi UFJ, Ltd. Azabu Branch	Overdraft	JPY 1,000,000	JPY1,000,000	-	-
	SBJ BANK Yokohama Branch	Short-term borrowings	-	-	JPY 1,000,000	JPY 500,000
AMOREPACIFIC EUROPE S.A.S	Sogebali S.A.	Lease finance	-	-	EUR 4,184	EUR 775
	Citibank N.A France	Short-term borrowings	EUR 7,000	EUR 7,000	EUR 7,000	EUR 7,000
	KEB Hana Bank Paris Branch	Overdraft	EUR 500	EUR 485	EUR 500	EUR 479
PACIFIC CREATION						

S.A.S[1]	KEB Hana Bank Paris Branch	Short-term borrowings	EUR 12,500	EUR 12,500	EUR 12,500	EUR 12,500
Annick Goutal S.A.S	KEB Hana Bank Paris Branch	Overdraft	EUR 6,000	EUR 5,742	EUR 6,000	EUR 3,314
	Citibank N.A France	Short-term borrowings	EUR 6,000	EUR 6,000	EUR 3,000	EUR 3,000

[1] A subsidiary of AMOREPACIFIC EUROPE S.A.S.

Restricted financial instruments in use at the end of the reporting period are as follows:

(in millions of Korean won, thousands of RMB and HKD)	Remark	2018	2017
Current financial deposits	Collateral provided for borrowings of subsidiaries	₩ -	₩ 15,000
Current financial deposits	Agreement of shared growth and cooperation	15,100	14,000
Non-current financial deposits	Deposit for checking account	5	6
Non-current financial deposits	Permission of door-to-door sales in China	RMB 20,000	RMB 20,000
Available-for-sale financial assets	Overdraft agreement and bank payment guarantee of leased stores	-	HKD 14,615
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores	HKD 5,000	-
Non-current financial deposits	Overdraft agreement and bank payment guarantee of leased stores	USD 194	-

Details of pending cases of the Group as at December 31, 2018 are as follows:

(in millions of Korean won)	Number of cases	Litigation value	Remark
The Group as defendant	3	₩ 150	Compensation for damages, injunction against patent infringement and others
The Group as plaintiff	19	₩ 422	Annulment of assessment, injunction against patent infringement and others

The outcome of the above cases cannot be reasonably estimated; and any outflows of resources and the timing are uncertain. Therefore, the potential effects for the outcome of the cases are not reflected in the consolidated financial statements as at December 31, 2018. The Group expects that these cases would not have any material impact on its financial statements.

As at December 31, 2018, the Group has entered into a long-term rental contract for the new building located in Yongsan with associates including Innisfree Corporation, until November 2022, and with external customers, until March 2028.

During the year ended December 31, 2017, the Group entered into an additional contract including a put option to the buyer for the land and buildings located in Yongin-si, Gyeonggi Province, recognized as non-current assets held-for-sale. The exercise price was ₩ 180,067 million from August 23 to September 26, 2018. The buyer did not exercise the put option, and the Group eliminated the asset.

33. Related Party Transactions

Details of the Company and subsidiaries as at December 31, 2018, are as follows:

Classification	Name
Ultimate parent	Kyung-Bae Suh
Parent Company	AMOREPACIFIC Group, Inc.
Ultimate parent company presenting consolidated financial statements	AMOREPACIFIC Group, Inc.
Associate	Taiwan AMORE Co.,Ltd.
Subsidiaries of the Parent Company	Innisfree Corporation
	Etude Corporation
	AMOS Professional Corporation
	Espoir Corporation
	AESTURA Corporation
	PACIFICGLAS, Inc.
	PACIFICPACKAGE Corporation
	Osulloc Farm Co., Ltd.
	COSVISION CO., LTD.
	AESTURA (Shanghai) TRADING Co., Ltd
Associate of the Parent Company	BBDO Korea Inc.
Other related party	Taeshin Inpack Corporation

Sales and purchases with related parties for the years ended December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018							
	Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Dividends received	Dividends paid
Parent Company								
AMOREPACIFIC Group,Inc.	₩ 2,545	₩ 17,806	₩ -	₩ -	₩ 241	₩ 46	₩ -	₩ 28,432
Subsidiaries of the Parent Company								
Innisfree Corporation	19,269	105,364	-	-	7,334	-	-	-
Etude Corporation	9,013	29,087	379	-	6,883	-	-	-
AMOS Professional Corporation	27,726	2,566	-	-	36	-	-	-
Espoir Corporation	2,019	5,646	-	-	30	-	-	-
AESTURA Corporation	2,034	76,697	-	-	24	204	-	-
PACIFICGLAS, Inc.	424	45,321	-	-	51	-	-	-
PACIFICPACKAGE Corporation	334	45,173	-	-	-	-	-	-
Osulloc Farm Co., Ltd.	135	1,842	-	-	-	317	-	-
COSVISION CO.,LTD.	1,120	28,278	295	-	420	1	-	-
Associate of the Parent Company								
BBDO Korea Inc.	749	-	-	-	-	27,093	-	-
Associate								-
Taiwan AMORE Co.,Ltd.	-	-	-	-	-	-	107	-
Other related party								
Taeshin Inpack Corporation	-	15,703	-	-	-	-	-	-
	₩ 65,368	₩ 373,483	₩ 674	₩ -	₩ 15,019	₩ 27,661	₩ 107	₩ 28,432

(in millions of Korean won)	2017 Sales	Purchase	Acquisition of property, plant and equipment	Disposal of property, plant and equipment	Other revenue	Other cost	Dividends received	Dividends paid
Parent Company								
AMOREPACIFIC Group,Inc.	₩ 1,952	₩ 21,955	₩ 57,762	₩ 56,962	₩ -	₩ -	₩ -	₩ 35,094
Subsidiaries of the Parent Company								
Innisfree Corporation	11,741	132,638	-	-	1,627	-	-	-
Etude Corporation	4,988	24,566	78	8	4,587	-	-	-
AMOS Professional Corporation	21,802	1,407	-	-	47	-	-	-
Espoir Corporation	1,152	2,365	235	-	1	-	-	-
AESTURA Corporation	1,645	73,020	39	-	18	-	-	-
PACIFICGLAS, Inc.	392	40,075	-	-	11	-	-	-
PACIFICPACKAGE Corporation	320	46,024	-	-	-	-	-	-
Osulloc Farm Co., Ltd.	136	1,685	2,418	-	-	206	-	-
COSVISION CO.,LTD.	1,146	26,884	-	-	-	-	-	-
Associate of the Parent Company								
BBDO Korea Inc.	-	-	-	-	-	16,245	-	-
Associate								
Taiwan AMORE Co.,Ltd.	-	-	-	-	-	-	108	-
Other related party								
Taeshin Inpack Corporation	-	15,627	-	-	-	-	-	-
	₩ 45,274	₩ 386,246	₩ 60,532	₩ 56,970	₩ 6,291	₩ 16,451	₩ 108	₩ 35,094

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018 Receivables		Payables		
	Trade receivables	Other receivables	Trade payables	Borrowings	Other payables
Parent Company					
AMOREPACIFIC Group,Inc.	₩ 99	₩ 2,356	₩ 1,376	₩ -	₩ 862
Subsidiaries of the Parent Company					
Innisfree Corporation	3,341	3,973	46,620	5,031	4,349
Etude Corporation	1,412	3,013	10,160	-	3,037
AMOS Professional Corporation	2,871	-	221	-	4,385
Espoir Corporation	621	1	621	-	1,301
AESTURA Corporation	508	38	3,648	-	777
PACIFICGLAS, Inc.	40	1	4,485	-	467
PACIFICPACKAGE Corporation	51	-	3,992	-	24
Osulloc Farm Co., Ltd.	11	2	19	-	9
COSVISION CO.,LTD.	150	789	3,153	-	79
Associate of the Parent Company					
BBDO Korea Inc.	-	48	-	-	-
Other related party					
Taeshin Inpack Corporation	-	-	1,107	-	-
	₩ 9,104	₩ 10,221	₩ 75,402	₩ 5,031	₩ 23,170

(in millions of Korean won)	2017			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Parent Company				
AMOREPACIFIC Group,Inc.	₩ 100	₩ 2,308	₩ 1,710	₩ 1,459
Subsidiaries of the Parent Company				
Innisfree Corporation	1,391	864	59,583	3,416
Etude Corporation	967	2,639	10,098	2,707
AMOS Professional Corporation	2,085	47	6	4,076
Espoir Corporation	82	6	213	791
AESTURA Corporation	621	183	4,245	980
PACIFICGLAS, Inc.	41	5	4,990	467
PACIFICPACKAGE Corporation	25	2	5,534	-
Osulloc Farm Co., Ltd.	11	-	19	9
COSVISION CO.,LTD.	86	33,429	3,410	101
Associate of the Parent Company				
BBDO Korea Inc.	-	-	-	5,575
Other related party				
Taeshin Inpack Corporation	-	-	1,392	-
	₩ 5,409	₩ 39,483	₩ 91,200	₩ 19,581

The trade receivables from related parties are due three months after the date of transaction. The receivables from related parties are unsecured in nature and bear no interest.

Fund transactions with related parties for the years ended December 31, 2018, are as follows:

(In millions of Korean won)	**2018**
Subsidiaries of the Parent Company	
Innisfree Corporation	₩ 4,951
	₩ 4,951

As at December 31, 2018, there are no collaterals and payment guarantees provided to or provided by related parties other than the Group.

As at December 31, 2018, the Group has entered into a long-term rental contract for the new building located in Yongsan with the related parties including Innisfree Corporation, and the contract is valid for five years. In addition, the Group has entered into a business agency contract with the domestic related parties and the Group recognizes consideration from the contract as revenue.

Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2018 and 2017 consists of:

(In millions of Korean won)	**2018**	**2017**
Short-term employee benefits	₩ 9,553	₩ 16,440
Post-employment benefits	1,019	1,017
	₩ 10,572	₩ 17,457

34. Risk Management

34.1 Financial Risk Management

The Group's various operations lead to exposure to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The overall risk management program of the Group focuses on the unpredictability of financial markets and seeks to minimize any potentially adverse effects on the financial performance of the Group.

Risk management is carried out under policies approved by the Board of Directors. The board reviews and approves written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk

The Group operates internationally, so it is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar, Euro and the Japanese yen.

The purpose of foreign exchange risk management is to maximize the enterprise value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Group's financial instruments denominated in major foreign currencies as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
USD	₩ 179,439	₩ 119,171	₩ 199,723	₩ 114,919
EUR	1,423	324	587	1,464
JPY	-	3,417	-	2,794
	₩ 180,862	₩ 122,912	₩ 200,310	₩ 119,177

As at December 31, 2018 and 2017, if the foreign exchange rate of the Korean won fluctuates by 10% with other variables fixed, the effects on profit before income tax will be as follows:

(in millions of Korean won)	2018		2017	
	10% Increase	**10% Decrease**	**10% Increase**	**10% Decrease**
USD	₩ 6,027	₩ (6,027)	₩ 8,480	₩ (8,480)
EUR	110	(110)	(88)	88
JPY	(342)	342	(279)	279

The above sensitivity analysis is performed with foreign currency denominated assets and liabilities that are not in the Parent Company's functional currency.

ii) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expense arising from deposits and borrowings fluctuates due to the changes in future market interest rate. The interest rate risk mainly arises from floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing enterprise value by minimizing uncertainty from fluctuations in interest rate and amount of net interest expense.

At the end of the reporting period, the amount of floating rate deposits exceeds the amount of floating rate borrowings, which leads to decrease in net interest expenses decrease when interest rates increase. On the other hand, the Group minimizes risks from fluctuations in interest rate through various policies: minimizing external borrowings from internal cash sharing; reduction in high rate borrowings; reforming short and long-term capital structure; managing an appropriate ratio of fixed rate borrowings to floating rate borrowings; monitoring domestic and foreign interest rates trend on daily, weekly and monthly basis and establishing measures; and balancing floating rate short-term borrowings with floating rate deposits.

The Group invests in fixed interest assets with maturities of one year or less, and if the market interest rate increases, there is risk of decrease in fair value. However, the risk of changes in fair value is insignificant as the investments are short-term deposits.

At the end of the reporting period, if interest rates on floating rate borrowings increases/decreases changes by 1% with all other variables held constant, profit before income tax for the year will decrease/increase by ₩ 617 million, mainly due to the increased/decreased interest expense on floating rate borrowings.

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, the Group only accepts institutions that earned minimum rating of 'A' from independent credit rating agencies.

If wholesale customers are independently rated, these ratings are used. Otherwise, if independent rating inaccessible, the Group assesses the credit risk by taking account for the financial position of the customers, past experience, and other factors. If it is deemed that the customers' credit risk needs to be reduced due to such factors as independent rating unavailable, the Group enhances their credit is through pledging property and deposit, or taking out guarantee insurance. For customers without insurance and collateral, the Group strictly manages credit risk in accordance with the internal credit-rating standard. Sales to retail customers are settled in cash or using credit cards.

The Group reviews whether the above trade receivables are individually or collectively impaired at the end of the every reporting period.

(c) Liquidity Risk

The Group holds sufficient amount of cash and cash equivalents and maintains a flexible fund capacity within credit limit by brisk business. Financial liabilities involved in sales except borrowings are basically paid within maximum 3 months after purchasing (average within 2 months), so maturity of all financial liabilities (with or without payment condition) are within 3 months. The Company manages liquidity by holding excess cash and cash equivalents than monthly payments.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For the liabilities with maturity less than a year, the effect of the discount is insignificant, so the amount is equal to the carrying amount.

(in millions of Korean won)	2018					
	Up to 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Carrying amount**
Trade payables	₩ 111,833	₩ -	₩ -	₩ -	₩ 111,833	₩ 111,833
Borrowings	73,021	45,095	-	-	118,116	116,140
Other payables	249,629	-	-	-	249,629	249,629
Other liabilities	139,990	22,251	-	-	162,241	160,797

(in millions of Korean won)	2017					
	Up to 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**	**Carrying amount**
Trade payables	₩ 132,084	₩ -	₩ -	₩ -	₩ 132,084	₩ 132,084
Borrowings	86,652	708	43,295	-	130,655	127,955
Other payables	212,057	-	-	-	212,057	212,057
Other liabilities	211,669	19,308	-	-	230,977	229,645

34.2 Capital Risk Management

The purpose of the Group's capital risk management is maximizing shareholders' value through maintaining a sound capital structure. The Group monitors financial ratios such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

Debt-to-equity ratio and net borrowing ratio as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won, except for ratios)	2018		2017
Liabilities (A)	924,720	₩	1,200,310
Equity (B)	4,446,417		4,175,374
Cash and cash equivalents and current financial deposits (C)	765,439		650,059
Borrowings (D)	116,140		127,955
Debt-to-equity ratio (A/B)	20.80%		28.75%
Net Borrowings ratio (D-C)/B	(-)14.60%		(-)12.50%

35. Fair Value

35.1 Fair Value Hierarchy

During the current year, there has been no business or economic circumstances that may significantly influence the fair value of the Group's financial assets and liabilities.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

	2018							
(in millions of Korean won)		Level 1		Level 2		Level 3		Total
Recurring fair value measurements								
Financial assets at fair value through profit or loss	₩	3,956	₩	78,565	₩	-	₩	82,521
Financial assets at fair value through other comprehensive income		2,107		-		582		2,689
Disclosed fair value								
Investment property		-		-		536,892		536,892

(in millions of Korean won)	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Available-for-sale financial assets	₩ 7,958	₩ -	₩ -	₩ 7,958
Disclosed fair value				
Investment property	-	-	546,775	546,775

35.2 Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

(a) Investment Property

The Group measures the fair value of investment property either by an independent appraiser who holds a recognized and relevant professional qualification, or by evaluating fair value reflecting available information such as officially assessed land price announced by the Korean government and similar recent transaction price.

35.3 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2018 and 2017 are as follows:

(in millions of Korean won)	**2018**	**2017**
Debt securities		
Asset backed securities	₩ 30,000	₩ 30,000
Government-issued securities	3,092	4,191
	₩ 33,092	₩ 34,191

Regarding debt investments measured at amortised cost, the fair value is measured at historical cost because the difference is immaterial.

Other financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the separate fair value disclosures.

36. Changes in Accounting Policies

36.1 Adoption of Korean IFRS 1109 *Financial Instruments*

As explained in Note 2, Group applied Korean IFRS 1109 Financial Instruments on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures for prior reporting period were not restated. The application of Korean IFRS 1109 does not have impact on the beginning balance of retained earnings and the impact on the statement of financial position at the date of initial application is as follows.

(a) Classification and Measurement of Financial Instruments

The management evaluated business model of the financial assets the Group held on January 1, 2018, the date of initial application of Korean IFRS 1109 Financial Instruments, and classified the financial assets in accordance with Korean IFRS 1109. The impact of the reclassification is as follows:

(in millions of Korean won)	Notes	Fair value through profit or loss	Fair value through other comprehensive income (Available-for-sale financial assets in 2017)	Amortized cost (Held-to-maturity financial assets, loans and receivables in 2017)[2]	Total
Financial assets – January 1, 2018					
Beginning balance – Korean IFRS 1039[1]		₩ -	₩ 43,281	₩ 1,202,135	₩ 1,245,416
Reclassification from available-for-sale financial assets to debt instruments at fair value through profit or loss	(i)	4,142	(4,142)	-	-
Reclassification of asset backed securities and government bonds from available-for-sale financial assets to financial assets at amortized cost	(ii)	-	(34,191)	34,191	-
Reclassification of equity investments that are not held for trading from available-for-sale financial assets to equity instruments at fair value through other comprehensive income	(iii)	-	-	-	-
Reclassification from loans and receivables including beneficiary certificates to debt instruments at fair value through profit or loss	(iv)	100,868	-	(100,868)	-
Beginning balance - Korean IFRS 1109[1]		₩ 105,010	₩ 4,948	₩ 1,135,458	₩ 1,245,416

[1] The beginning balance as at January 1, 2018, presents available-for-sale financial assets as fair value through other comprehensive income, and loans and receivables as amortized cost.

[2]Cash and cash equivalents are included.

(i) Reclassification from available-for-sale to debt instruments at fair value through profit or loss

As at January 1, 2018, beneficiary certificates amounting to ₩ 4,142 million were reclassified from available-for-sale to debt instruments at fair value through profit or loss. The instrument do not meet the criteria to be classified as at amortized cost in accordance with Korean IFRS 1109, because their cash flows do not represent solely payments of principal and interest.

(ii) Reclassification from available-for-sale financial assets to financial assets at amortized cost

As at January 1, 2018, investments in asset backed securities and government bonds were reclassified from available-for-sale financial assets to financial assets at amortized cost. The Group holds these investments to collect contractual cash flows, and the cash flows is solely comprised of principal and interest on the principal amount.

(iii) Reclassification of equity investments from available-for-sale to equity instruments at fair value through other comprehensive income

The Group elected to present changes in the fair value of all its equity investments that are not for sales in near term thus previously classified as available-for-sale, in other comprehensive income. As a result, financial assets with a fair value of ₩ 4,948 million were reclassified from available-for-sale financial assets to equity instruments at fair value through other comprehensive income. As at January 1, 2018, related accumulated other comprehensive income of ₩ 1,815 million is not subject to reclassification to profit or loss even though these assets are disposed of.

(iv) Reclassification from loans and receivables to debt instruments at fair value through profit or loss

As at January 1, 2018, loans and receivables including beneficiary certificates were reclassified from financial assets at amortized costs to debt instruments at fair value through profit or loss. These instruments are composed of assets that do not meet the criteria to be classified as subsequently measured at amortized cost because their cash flows do not represent solely payments of principal and interest. Beneficiary certificates are also reclassified as subsequently measured at amortized cost, because the objective of the business model is achieved by collecting contractual cash flows and selling the assets.

(v) Reclassifications of financial instruments on adoption of Korean IFRS 1109

On the date of initial application, January 1, 2018, the financial instruments of the Group with any reclassifications noted, were as follows:

(in millions of Korean won)	**Measurement category**		**Carrying amount**		
	Korean IFRS 1039	**Korean IFRS 1109**	**Korean IFRS 1039**	**Korean IFRS 1109**	**Difference**
Current financial assets					
Cash and cash equivalents	Amortized costs	Amortized costs	₩ 604,188	₩ 503,320	₩ -
		Fair value through profit or loss		100,868	
Financial deposits	Amortized costs	Amortized costs	32,000	32,000	-
Debt securities	Available-for-sale financial assets	Amortized costs	30,000	30,000	-
Trade receivables	Amortized costs	Amortized costs	324,665	324,665	-
Other receivables	Amortized costs	Amortized costs	55,312	55,312	-
Other assets[1]	Amortized costs	Amortized costs	1,731	1,731	-
Non-current financial assets					
Financial deposits	Amortized costs	Amortized costs	₩ 13,872	₩ 13,872	₩ -
Debt securities	Available-for-sale financial assets	Amortized costs	8,33	4,191	-
		Fair value through profit or loss		4,142	
Other receivables	Amortized costs	Amortized costs	170,367	170,367	-
Equity instruments	Available-for-sale financial assets	Fair value through other comprehensive income	4,948	4,948	-

[1] Consists of accrued income.

(b) Impairment of Financial Assets

The Group has four types of financial assets subject to Korean IFRS 1109's new expected credit loss model:

- trade receivables for sales of inventory
- debt investments measured at amortized cost

The adoption of Korean IFRS 1109 does not have an impact on the impairment of financial assets.

36.2 Adoption of Korean IFRS 1115 Revenue from Contracts with Customers

As explained in Note 2, the Group applied Korean IFRS 1115 *Revenue from contracts with customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures were not restated. The significant changes in accounting policies from the application of Korean IFRS 1115 and the impacts of the changes on the financial statements are as follows.

The amount of adjustments on the Group's statements of financial position at the date of initial application is follows:

(in millions of Korean won)		**December 31, 2017 Before adjustments**		**Adjustments**		**January 1, 2018 After adjustments**
Total assets	₩	5,375,684	₩	-	₩	5,375,684
Deferred revenue[1]		52,823		(52,823)		-
Other current liabilities[2]		477,879		(12,122)		465,757
Contract liabilities		-		63,961		63,961
Total liabilities	₩	1,200,310	₩	(984)	₩	1,199,326
Retained earnings	₩	3,456,503	₩	979		3,457,482
Non-controlling interests		21,592		5		21,597
Total equity	₩	4,175,374	₩	984	₩	4,176,358

[1] Accounting for customer loyalty program

In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method, where a part of the consideration was allocated to the points and the residual part of the consideration was allocated to the goods sold. Under Korean IFRS 1115, the total consideration is allocated to the points and goods based on the relative stand-alone selling prices. As a consequence, the contract liability recognized in relation to the customer loyalty program on January 1, 2018 decreased by ₩ 984 million than the amount recognized as deferred revenue under the previous policy and retained earnings increased by ₩ 979 million as at January 1, 2018.

[2] Consideration in advance from customer

Under Korean IFRS 1115, consideration in advance form customer amounting to ₩ 12,122 million was reclassified from other current liabilities to contract liabilities.

Financial statement line items affected by the adoption of Korean IFRS 1115 in the current period are as follows:

Statements of financial position as at December 31, 2018

(in millions of Korean won)	Reported amount[1]	Adjustments	Amount before application of Korean IFRS 1115
Total assets	₩ 5,371,137	₩ -	₩ 5,371,137
Deferred revenue[1]	-	39,500	39,500
Other current liabilities[2]	200,067	17,018	217,085
Contract liabilities	56,178	(56,178)	-
Total liabilities	₩ 924,720	₩ 340	₩ 925,060
Retained earnings	₩ 3,726,003	₩ (396)	₩ 3,725,607
Non-controlling interests	24,371	71	24,442
Accumulated other comprehensive income	₩ (41,312)	₩ (15)	₩ (41,327)
Total equity	₩ 4,446,417	₩ (340)	₩ 4,446,077

Statements of comprehensive income for the year ended December 31, 2018

(in millions of Korean won)	Reported amount[1]	Adjustments	Amount before application of Korean IFRS 1115
Sales	₩ 5,277,845	₩ 660	₩ 5,278,505
Profit for the year	334,845	660	335,505
Total comprehensive income	₩ 358,402	₩ 644	₩ 359,046

Statements of cash flows for the year ended December 31, 2018

(in millions of Korean won)	Reported amount[1]	Adjustments	Amount before application of Korean IFRS 1115
Profit for the year	₩ 334,845	₩ 660	₩ 335,505
Changes in operating assets and liabilities	(28,065)	(660)	(28,726)
Increase in other liabilities	32,097	(8,444)	23,654
Decrease in contract liabilities	(7,783)	7,783	-
Cash generated from operations	₩ 646,677	₩ -	₩ 646,677

With the application of Korean IFRS 1115, the cash flow decreased by ₩ 660 million compared to the amount under the previous policy; however, there is no difference in total cash flow generated from operations.